
ECONOMIC TRANSITION IN CENTRAL ASIA

A COMPARATIVE APPROACH

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DECLARATION

I hereby declare that this thesis is my own work and, to the best of my knowledge, contains no material previously published or written by another person, except where due acknowledgment is made in the text. I certify that it does not contain work that has been submitted for a higher degree to any other university or institution.

1 August 2004

A handwritten signature in black ink, reading "Matthew May". The signature is written in a cursive style with a large, sweeping initial 'M' and a long, horizontal stroke extending to the right.

Matthew May

ABSTRACT

The thesis is a comparative study of economic and political developments in Central Asia since 1992. The post-Soviet period has been one of considerable economic and political change throughout Eastern Europe and the former Soviet Union. It was also one of extreme macroeconomic instability—all the countries in the region suffered severe collapses in output and prolonged hyperinflation during the 1990s. Many economists argued that rapid, radical economic reform was integral to regaining macroeconomic stability in the transition countries, but comparative study of the Central Asian economies counters this theory: reform had no influence on either output or inflation performance in the region. Instead, output decline and subsequent recovery were dependent on factors rooted in the region's history and geography: each republic's degree of reliance on Soviet trade links, and consequently its export structure and overall economic structure; its transport links with the rest of the world; and, in Tajikistan, civil war. Similarly, inflation was not dependent on reform. Control of inflation depended in the first instance on each republic's ability to restrain deficits, and in the second instance on its ability to finance government deficits without recourse to printing money. The thesis finds no link between rapid economic reform and the reduction of deficits in the Central Asian context, rendering a direct connection between the speed of economic reform and control of inflation highly doubtful. The thesis also finds that political practice in the region has barely changed in the post-Soviet period. The republics remain far from democratic, and this lack of political reform has influenced aspects of economic reform. Socioeconomic conditions have deteriorated in all the republics, irrespective of reform strategy, contradicting the justifications, made by some of the region's leaders, for slow reform.

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1 INTRODUCTION AND HISTORICAL OVERVIEW

1.1 INTRODUCTION: ECONOMIC TRANSITION IN CENTRAL ASIA

The 1990s were a period of immense political and economic flux in all the countries of Eastern Europe and the former Soviet Union. This was a period of change, or transition, in which these countries shifted away from Soviet economic and political systems to new systems, frequently based on notions of democracy and capitalism. This thesis focuses on economic and political developments in the Central Asian republics of the former Soviet Union—Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan—since the early 1990s. It has two main objectives: to assess macroeconomic developments in the region in the post-Soviet period and relate them to theoretical understandings of transition, and to assess how economic and political change has affected people in the region. On the first objective, the thesis posits that there are many reasons why Central Asia is different from other transition economies in terms of economic history and structure, geographical location, and political developments, and that these characteristics are important in determining the Central Asian republics' economic performance in the post-Soviet period. This contrasts with much of current economic theory, which assigns a prominent, even determining, role to the economic approach in explaining economic performance in the transition economies. The second, and possibly more important, objective is to ask the simple question: are Central Asians better off as a result of the transition? To answer this question, the thesis goes beyond purely macroeconomic developments and looks at the political situation as well as socio-economic change in the post-Soviet period.

1.1.1 The theory

The transition, as it came to be known, was a source of considerable debate among economists during the 1990s, and essentially became something of a battlefield for competing economic theories at this time. The debate was not so much about what economic steps were necessary; most economists could agree on the basic facets of a reform program—namely, macroeconomic stabilisation, liberalisation and institutional change. Where disagreement arose most was on the correct speed of reforms and the correct emphasis of the reform approach. There was in this respect a strong divide between economists who advocated rapid, 'big-bang' reforms and those who advocated a slower, more cautious approach. Similarly, rapid-reform advocates tended to place an emphasis on quickly privatising state-owned enterprises, whereas 'gradualists' stressed the importance of economic stability and institutional development.

The transition period was characterised by extraordinary macroeconomic instability in most of the economies in Central Europe and the former Soviet Union, particularly in terms of GDP declines and inflation. Again, economists advanced theories explaining the inflation and the GDP contractions in transition economies, typically to bolster their arguments regarding the correct reform approach. Furthermore, economists have used indicators of macroeconomic stability as a measure of success in transition. Thus, those countries that managed to bring down inflation rapidly and limit the output decline are seen as having a successful transition.

The Central Asian economies represent an interesting comparative study in this regard because they share similar geographic constraints and roughly similar starting points, but have adopted very different reform approaches. Kazakhstan and Kyrgyzstan have adopted the most radical reform approaches in the region, rapidly liberalising prices, trade, and exchange rates, and quickly privatising state enterprises. Turkmenistan and Uzbekistan represent the opposite approach, only gradually lifting price controls and trade restrictions. They have also been far slower to privatise state assets. Tajikistan represents the intermediate case—a fairly ambitious reform program was drawn up but its implementation was delayed until the conclusion of the civil war there in 1997.

In Central Asia, the results of reform have been far from those expected. Reform there is not associated with better output performance in transition, nor is it very well associated with good inflation outcomes. Instead, factors specific to each country determined economic performance in the post-Soviet period, and these factors were largely based in constraints exogenous to the policy process.

The key to understanding these constraints lies in Central Asia's economic history and its current geography. In the course of the last three centuries, the region has increasingly become an adjunct to Russian and later the Soviet economies. This has a bearing on the post-Soviet experience, because developments in these earlier periods propelled the Central Asian economies to a very peculiar structure by the time the republics gained their independence. In this respect, by independence, the Central Asian economies were cut off from influences outside the Soviet Union, strongly concentrated on raw materials production augmented by a Soviet subsidised manufacturing industry, heavily reliant on the Union for foodstuffs, capital, investment and social-sector spending. The republics, particularly Turkmenistan and Tajikistan remain severely constrained by geographic factors. Transport in particular has been, and remains, a major difficulty for them, and an important reason underlying their transition performance.

There has been even less change politically than economically. While all of the republics have adopted constitutions providing for democratic political systems, in practice the democratic process in Central Asia is mere formality. Political competition is everywhere circumscribed, elections are neither free nor fair, critical media are effectively silenced, and no judiciary in the region is independent. This has retarded progress in institutional reform, the facet of reform in which Central Asia as a whole lags the rest of the transition countries. At the same time, economic change and growth in the region may itself be influencing the course of political and institutional reform.

Looking at socio-economic developments we can see that reform approach has had little influence on results. While the slower reformers have sought to justify their

approach as a way of avoiding unnecessary economic and social dislocation, their claims are not borne out by reality. Irrespective of reform approach, education and health care funding has decreased throughout the region. This, moreover, has been accompanied by increases in both poverty and inequality, which are in some cases most severe in the region's slower reformers.

1.1.2 The human perspective

The other aim of the thesis is to ask the simple question: are the people of Central Asia better off than they were under the Soviet system? Has life in Central Asia improved in transition? These are essentially unanswerable questions because they depend obviously on individual personal situations and preferences. Some aggregated insight can, however, be gained by looking not only at the standard macroeconomic figures, but also socio-economic figures and political developments.

Politically, little has changed in the post-Soviet period. While there are substantial differences between the republics, none has become a democracy. As noted above, aspects of democratisation, such as elections, political contestation, rule of law and freedom of the media, have either not improved or have deteriorated precipitously in the Central Asian republics in the last decade. At the same time, economic activity decreased considerably and inflation reached massive levels. Together, these developments imply severe economic dislocation and change. In short, the Central Asian republics and their populations experienced economic chaos. The consequences of this chaos are most likely to be felt in deteriorating conditions in the socio-economic sphere, where GDP contractions, inflation, and the withdrawal of Soviet subsidies have prompted decreased funding of social services, such as education and health care, and worsening poverty and inequality. These directly bear on people's standard of living. Thus, we are entitled to ask what the true overall impacts of transition have been for the ordinary person.

1.2 A NOTE ON STATISTICAL SOURCES

Statistics are critical to a thesis of this kind. Unfortunately, the quality and availability of statistical information for the region are not high, and as a result I have been compelled to use heterogeneous unconventional sources of information, subject, of course, to critical scrutiny. This is especially problematic with respect to official data on Turkmenistan, and to a lesser extent Uzbekistan, which are increasingly not trusted and not available. Where appropriate, I have used CIS statistical sources to complement and extend those provided by international agencies.

1.3 A BRIEF OVERVIEW OF CENTRAL ASIAN ECONOMIC HISTORY

This chapter seeks to provide a short overview of economic patterns over the course of Central Asia's recent history. From the beginning of Russian penetration of the region in the late eighteenth century until the Central Asian republics became independent at the end of 1991, change largely proceeded in the same direction—traditional patterns collapsed and production became more specialised. The Central Asian economies, as a consequence, became increasingly dependent on Russia, less self-sufficient and less connected with the world outside the Russian, and later the Soviet, empires.

The chapter argues that these developments occurred on the eve of Russian conquest, under Russian imperial rule, and under Soviet rule. It then discusses Soviet stagnation and collapse in the Central Asian context, and concludes by analysing the structure of the Central Asian economies at independence. It argues that there are grounds for treating them as different to most of the other transition economies, on the basis of such factors as geography, economic structure and resource endowments.

1.4 PRE-SOVIET ECONOMIC PATTERNS

1.4.1 Nomadic steppe versus irrigation-based economies

Central Asia cannot be viewed as a single cohesive economic space prior to the Soviet-period induced modernisation that began in the 1930s. Economic production before and even during the expansion of the Russian empire into Central Asia can be roughly divided into two major modes. Large tracts of land and population, in the deserts, steppe lands and mountain pastures, were devoted predominantly to nomadic pastoral production.¹ This contrasted with the oasis cities such as Samarkand and Bukhara, and regions such as the Ferghana valley, where activities centred to a much greater degree on sedentary cultivation and herding based on river irrigation (Christian 1998; Pierce 1960).

1.4.2 Nomadic pastoralism

The nomads in the steppe and desert areas concentrated on rearing livestock for their own consumption and for trade. Arable farming, while not unknown, was not particularly widespread prior to the Russian conquest. Goods that the nomads could not produce themselves were acquired by trading with, or raiding, the sedentary societies and traders' caravans with which these groups came into contact (Olcott 1987).

Production on this basis was necessarily extensive rather than intensive, with nomadic groups migrating sometimes long distances between summer and winter pastures or, in the mountain regions, between high-altitude summer pastures and warmer low-lying winter pastures. This production system was well suited to Central Asian climatic conditions in that it maximised the chances of accessing water and avoiding drought during the extreme heat of summer, and evading the extreme cold of winter (both in the mountains and on the steppe).

Inevitably little or no investment was made, for example, in enhancing soil quality or introducing irrigation systems, which without a major change in the production system would have had little value to nomads. While nomadic groups in Central Asia were predominantly involved in livestock herding, Emeljanenko (1994) points out that even the most strongly nomadic groups undertook some agricultural activity (see also di Cosmo 1994). She highlights that nomadism covers a spectrum ranging from complete nomadism through semi-nomadism to near-complete sedentarisation.

Land was not owned by individuals, rather it was held in common among a particular group, and, according to Pierce (1960:141), land tenure was dependent on a group's capacity 'to seize land and hold it against other groups'. This, however, understates the power hierarchy within the nomadic societies, which controlled disputes within the nomadic groups, and mobilised the group to fend off external threats and also seize the

resources of other groups. Thus, it is important not to understate the social organisation of the region's population. Complex social systems ordered the way groups behaved and determined their social status. These influences are strong and have persisted to the extent that they arguably still play a role in modern Kazak politics (see, for example, Masanov 2002).²

1.4.3 Oasis areas

Oasis areas had rather different social and economic systems. Economic activities there were more commonly based on irrigated agriculture. The major cities and other areas of extensive sedentary activity were mostly sited along the river systems that emptied out of the mountains into the desert and steppe lands. Primary among these, of course, were the Syr-darya and Amu-darya rivers and their major tributaries, such as the Zerafshan. Production in these areas was typically less specialised than among the nomadic groups; and, prior to the Russian conquest, production covered a range of goods such as fruit, grains and cotton, finished textile goods, and also to some extent livestock. These areas also had a role as major posts in the long-distance trade routes that crossed the Eurasian landmass. Thus, they contained large service sectors aimed at providing for traders and travellers, including caravanserai, markets, money-lenders and so forth. It appears that trade may have had a very strong influence on the economies of these centres; serious declines in trade through these towns seem to have had profound effects on economic well-being and political stability (Knoblauch 2001; Gafurov 1989). These towns were therefore reliant in the first place on the maintenance of their irrigation systems, and in the second place on flourishing trade.

The irrigated areas represented an economic sector which specialised in production of goods other than livestock and livestock-related items. There was some secondary-level production of goods to satisfy both domestic and external demand, and this was supplemented by trade with nomadic groups and long-distance traders.

It would be wrong to think, however, that these rather different systems existed independently of one another. The sedentary areas were effectively enveloped by deserts and steppe and/or mountains, and consequently by nomadic activities. Hence, the nomadic and sedentary societies can be considered to have been largely complementary (Matley 1994b). In fact, the nomadic groups were usually reliant on trade with their sedentary counterparts to supplement their own production (see Khazanov 1984, 2001; Black et al. 1991; Barfield 2001). Audrey Burton's very thorough analysis of Bukhara's trade patterns in the 16th and 17th centuries describes how Bukharan traders (ie. merchants from a largely sedentary area of Central Asia) bought 'livestock, articles of hide and wool, furs, wooden objects and slaves' (1997:432), and also items derived from wool and fur, from Kazakh nomads. In return, the Kazakhs bought from the Bukharan traders '...grain, flour, silks, metal, ceramic and glass goods' (1997:434), as well as other manufactured goods and military hardware. Similar types of goods were traded with other nomadic groups. Burton notes of one such group, the Noghays, that they '...relied on the khanate [Bukhara] for their supplies of clothing, cottons and other materials' (1997:427). The trade between the nomadic groups of Central Asia and the sedentary centres with which they coexisted was, it seems, quite extensive.

1.4.4 The Silk Roads and other long-distance trade

Long-distance trade was difficult and costly. The long distances separating the major Central Asian centres from each other and from other regions, and the relatively cumbersome means of transport available at the time, such as camel trains, meant that such trade took considerable time and was a huge undertaking. The risks inherent in this transport were also serious. Trade caravans could easily be attacked by bandits, nomadic groups might seek to extort taxes from passing traders, and there was of course no guarantee of finding a ready market at the trader's destination. Consequently, trade that did take place across these distances—including on the so-called Silk Roads—necessarily involved mostly non-perishable goods that had a high value–weight ratio. Such items would have included 'spices, dyes, porcelain and precious stones' (Burton 1997:435), tea, livestock, lapis lazuli, animal products, carpets, paper, metal goods and even fruit (Burton 1997).

Ostensibly, the Central Asian economies lost their position as part of major world trading networks from the seventeenth century onwards as sea routes were developed from Western Europe to South and East Asia. Rossabi (1990) argues, however, that large transcontinental trade has been subject to repeated intermittent declines caused by instability in the major polities through which the Silk Routes passed, and that periods of stability along the Silk Routes are marked by increased trade.³ Rossabi's argument is that stability along the Silk Routes lessened the risks of long-distance trade to such an extent that the trade became viable. Instability, on the other hand, could increase these risks to the point where this trade was no longer attractive to some merchants. Thus, Rossabi writes:

The common assumption that the seaborne commerce superseded the caravan trade needs qualification. The political disruptions that afflicted most of the Asian regions through which the caravans travelled were major causes for the decline of the Central Asian overland trade. Protection costs were too expensive, and plundering of cargo was a real concern. The economies to be gained from ship transport dampened still further the merchants' plans for overland trade, but a major motive for not dispatching caravans stemmed from the military and political conditions to be faced along the Asian landmass (Rossabi 1990:367).

Rossabi goes on to point out that transcontinental trade did continue, but passed from European Russia through Russian Siberia and thence to China. This is an important development, because it meant that the Central Asian economies were effectively removed from world trade markets by both the loss of some trade volume to sea-borne transport, and also by the redirection of transcontinental routes away from Central Asia.

Christian (2000) also argues that the role of 'trans-ecological exchange' has been overlooked. He suggests that trade between different ecological areas, largely on routes transverse to the Silk Routes, preceded, and was at least as important as, the Silk Route trade. This is intuitively appealing, because different ecological areas will tend to have different resource endowments; and that is the basis for trade.⁴ This is echoed by Adshead (1993), who suggests that while the East–West trading networks may have declined in the 1800s, this was offset by growth in the much more intense North–South trading networks.

Trade routes, both East–West and North–South, facilitated the movement not just of goods, but also of knowledge and technology (see, for example, Christian 2000; Diamond 1997; Adshead 1993). Traders brought with them news and information, as well as new goods, from outside the region, thus keeping the region's economies

connected albeit tenuously to world market developments and technological change. Thus, loss of trade would necessarily have lowered the quantity of technological and strategic information brought into the region and thereby compounded the decline in Central Asia that resulted from the loss of the goods trade.

1.4.5 Regional self-sufficiency and regional backwardness

Inter-regional trade was, at any time, dangerous and unreliable, and the trade that was undertaken tended to involve high value luxury goods rather than staples. By contrast, the trans-ecological trade identified by Christian (2000) was more likely to involve the exchange of staple goods than the transcontinental trade of the Silk Roads.⁵ To add to this, the transcontinental trade seems to have suffered serious decline from the 1600s (Rossabi 1990). This would have affected conditions among the major export producers in the oasis-based regions, whose export earnings were concentrated on the trade in cotton and other textiles (see Burton 1997).

This has a number of consequences. First, the sedentary civilisations and nomadic groups of the region were reliant to some extent on the transcontinental trade as a source of tax revenue. The loss of this revenue would have caused deterioration in the fiscal basis of many of these states. And this would have weakened them politically and militarily.

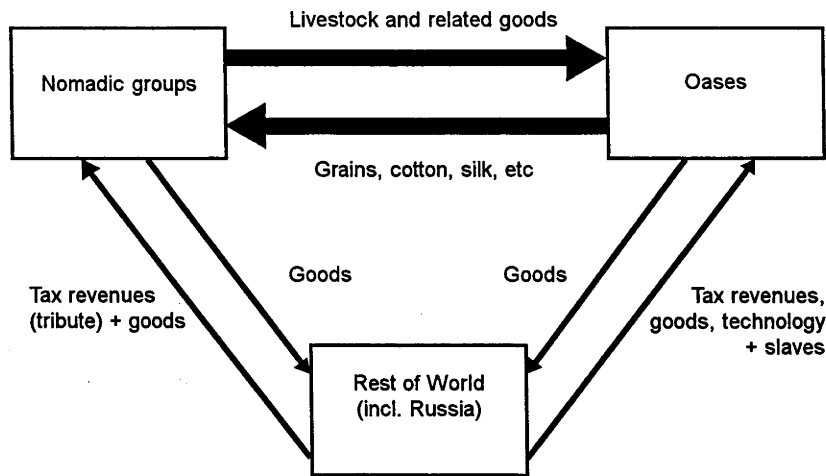
Thus, in the century prior to the beginning of the Russian conquest, Central Asia was fairly effectively isolated from the world in economic terms. This inevitably influenced the way the economies of the region were structured. The opportunities for the region to develop economically were limited by their need to be largely self-supporting. Owing to the region's isolation, requirements for most goods had to be met by domestic production, which meant that there could be little specialisation in production and trade on the basis of comparative advantage. That is, there was little scope for these economies to concentrate on producing particular goods and relying on imports to satisfy other requirements. It also meant that the spread of new production and social technologies into the region would have been fairly limited.

Figure 1.1 presents a simplified model of the economic structure of Central Asia prior to the Russian conquest.

1.5 THE RUSSIAN CONQUEST

Russian control over the region essentially began with the subordination and later suppression of the Kazak hordes on the northern fringes of the Kazak steppe from the early 1700s onwards.⁶ This was followed by an escalation of military campaigns against the southern Khanates of Khiva, Bukhara and Khoqand through the second half of the nineteenth century. The Russian conquest reached its furthest extent with the capture of Merv and later Kushka on the current Afghan border in the mid 1880s.⁷ As with other cases of European colonial expansion at the time, tsarist Russian expansion in Central Asia was motivated, in economic terms, by a desire to access the goods and resources of the colonised territories and to open up wider markets for the conqueror's products.⁸ The Russians were also concerned strategically by Britain's control over India, and by the halting British military and reconnaissance forays into Afghanistan and the areas adjacent to the Russian empire's southern frontier.⁹

Figure 1.1 Model of the Central Asian economy prior to Russian conquest



Note: Here the thickness of the arrows indicates the relative intensity of the linkages.

1.5.1 Economic structure

How was Central Asia's economic structure changed by the Russian conquest and rule? A number of clear changes can be discerned in this period:

- decreased prevalence of nomadism
- increased concentration on cotton production
- increased regional production specialisation and decreased self-sufficiency
- decreased traditional manufacturing—cottage industry and handicrafts
- decreased intra-regional trade
- increased trade with Russia but decreased trade with other countries

1.5.2 Nomadic regions: the decline of pastoralism

The Russian conquest of Central Asia changed economic practices in both the nomadic and the sedentary areas. In the nomadic areas, the immigration of Russian settlers to take over the supposedly 'unused' steppe for settled cultivation caused severe disruptions to Kazak groups and their nomadic activities.¹⁰ Nomadic herders, at least in Kazakhstan, were effectively compelled to become sedentary to some extent through loss of accessible grazing lands and closure of traditional stock routes. Black et al. (1991:245) state that

The primary immediate effect in the north was to curtail gradually the amount and quality of land available to the nomadic clans and tribes because of the settlement patterns of the rural Russian and other European newcomers. In turn, this phenomenon brought pressure to bear on the Kazakhs themselves to settle and turn to agricultural pursuits.

This process is detailed extensively by Olcott, who describes the Russian colonisation of the steppe region as leading to the 'destruction of the nomadic economy practiced by the Kazakhs' (1987:88).¹¹ This, she argues, was brought about by the collapse of traditional herding routes owing to colonisation by peoples from the Russian

empire, but also from the increased trading opportunities opened up by improved networks within the steppe and between the steppe and the rest of the Russian empire.

That said, the nomadic mode of production seems to have persisted (to borrow Dienes' term) despite the loss of grazing lands (Olcott 1987; Popova 1994), and even past the forced collectivisation of the Soviet era (Dienes 1975; Popova 1994). This indicates that the nomadic lifestyle, though perhaps marginal, is still viable enough to be attractive to some groups. This persistence, in the face of often severe pressures, can be attributed to the perceived suitability of Central Asian climates and environmental conditions to nomadic livestock-herding (Dienes 1975; Popova 1994). Alternatively, it could be attributed to the unsuitability of these areas for other uses—the nomadic mode of production means that a given area will be grazed to its limit, at which time the nomadic group will usually leave the area, thus giving the vegetation and topsoil a chance to recover. Arable farming tends remove the natural vegetation and occupies the same area fairly constantly and over longer periods, accelerating the degradation of the soil while at the same time preventing its recovery, a situation exacerbated by farming practices in the Soviet period.¹²

Overall, the Russian conquest of the regions engaged mostly in nomadic livestock-herding activity was a major break from historical patterns. Although many nomadic groups did engage in some crop-growing, this did not form the basis of economic activity in the region. Colonisation by Russia disrupted the traditional economic structure by imposing alien societal norms onto the nomadic lands, turning hitherto common lands into effectively private property. This, in turn, directly impinged on the nomadic groups' capacity to maintain traditional production systems, leading ultimately to increased impoverishment of most of these nomadic groups, social disruption, and also greater antagonism between the local populations and the colonising power. Pressures on land were accompanied by Russian policies that provided an incentive for nomadic herders to change production, under which nomadic groups would be granted land—which, it must be said, had earlier been expropriated from them—if they took up more sedentary practices (Brower 2003). Economic factors worked in the same direction: as their traditional grazing lands were occupied, nomadic groups had to turn to agriculture to raise feed grain if they were to continue raising livestock.¹³

Economically, the major effect was to shift these regions from concentration on livestock production (particularly sheep and horse rearing) on a nomadic basis, towards agriculture and cattle rearing on a largely sedentary basis.

1.5.3 Sedentary regions: the rise of cotton

In the more settled areas of Central Asia, the oasis towns, patterns of production were to be less radically altered—both colonisers and colonised pursued sedentary agricultural activities (d'Encausse 1994). The real change here was in the altered output mix. The sedentary regions shifted towards production of raw cotton, and away from production of grains, fruits, and manufactured goods.¹⁴

In fact, once Russia had asserted its dominance over the sedentary regions of Central Asia, cotton came to dominate their economies. There are several reasons for this.

Russian dominance can be seen as the assertion of Central Asia's incorporation into what was essentially a Russian trading bloc. Even prior to 1895, when the oasis cities were finally incorporated into the Russian customs area, trade with non-Russian regions was strongly discouraged (Becker 1968). Production in such circumstances would be determined by the interaction of Russian demand and Central Asian comparative advantage. Supply disruptions associated with the American Civil War (1861–65) prompted Russian policymakers to seek a domestic alternative to North America as a source of raw cotton (Matley 1994a), opening a profitable avenue for Central Asian agriculture. Central Asian farmers, who had long produced cotton for export and domestic consumption, were confronted by a situation in which the returns from cotton production outstripped the returns from producing most other goods, and hence had a very strong incentive to divert resources towards raising cotton output. Restating this from an economic perspective, Central Asia had a comparative advantage in producing cotton when it was engaged in extensive trading with the Russian empire. Even in the absence of other changes, the Russian conquest of Central Asia would be expected to have moved towards increased specialisation and trade based on regional comparative advantage.

This was facilitated by another development from the 1860s onwards—the railways. Although the impact of the railways would not be fully felt until the late 1890s and first decade of the twentieth century (Taafe 1962), their extension into Central Asia is crucial in several respects. First, it allowed trade between Central Asia and the Russian empire to assume a more formal and continuous basis than had been possible with the earlier sporadic caravan trade. Second, it enabled goods, particularly foodstuffs such as grains, to be imported cheaply and reliably into Central Asia. This eliminated the need for Central Asia to maintain a particular level of self-sufficiency, and also undercut the returns to Central Asian producers of foodstuffs or manufactured goods. The railways opened up the opportunity for increased specialisation in Central Asia by reducing the need to allocate land to uses other than cotton production; they removed the need, and indeed the economic impulse, for regional economic self-sufficiency (see Pierce 1960).¹⁵

One impact of this increased trade, and reduced need for self-sufficiency, was erosion of the domestic small industry and handcraft sectors. In this regard Becker notes that

[t]he only group in Bukhara and Khiva that was adversely affected by the growth of trade with Russia was the native craftsmen, who could not compete with the cheap Russian textiles and metal goods, although the extent of the Russian impact is difficult to judge (1968:180).¹⁶

Similarly, Black et al. state that

[t]he expansion of trade with Russia toward the end of the nineteenth century, with the appearance of cheaper factory goods from the West, had the effect of driving down prices of local crafts, reducing demand, and eventually undermining the crafts themselves (1991:104).

The railways were complemented by more active, directed Russian trade and tariff policies that sought to subsidise grain imports from Russia into Central Asia and Central Asian cotton exports to European Russia. These served to skew further the returns to agricultural production, discouraging grain and foodstuffs production and promoting the production of cotton in the region (Taafe 1962).

Thus, it may be more sensible to talk of two levels of economic change in Central Asia during this period—a ‘natural’ economic process of specialisation, and an ‘un-natural’ process of overspecialisation in cotton production.¹⁷ The natural process of specialisation resulted from the effective incorporation of Central Asia into the Russian trading bloc, and the extension of trade-facilitating infrastructure. The un-natural process, the overspecialisation, was a consequence of targeted distortionary policy initiated by the imperial power to serve the interests of the imperial centre.

1.5.4 Trade and technology in Central Asia in the Tsarist era

The Russian colonisation of the region brought with it improved (although potentially negative) access to world technological advances, and also reopened the possibility of trade into world markets, although this likely meant specialisation of Central Asian producers in primary production to trade for imports of Russian and Western finished goods (Matley 1994b). This represented a limited reversal of the stagnation imposed by the loss of transcontinental trade routes in the period preceding the Russian conquest. Such industrialisation as there was seemed to follow the logic of complementing local primary production, with the main industrial activities developing around the refining of cotton (Aminov and Babakhodzhaev 1966).¹⁸

Trade in this period shifted away from the sporadic caravan-based process of earlier years. At the same time, the construction of railway connections with Russia and the growing dominance of Russia both economically and as a colonising power meant that Central Asia’s trade interactions with other regions and nations were curtailed. Another important change was the decreasing basis for trade within Central Asia. As the nomadic areas turned to sedentary activities, their scope for trade with the irrigated areas was eroded because production in both areas was converging. So, as trade with Russia grew, trade within the region and with other regions declined.

1.5.5 Consequences

Clearly, the imposition of Russian rule over Central Asia changed the economic structure of the region. These changes had long-lasting impacts on the region, through

- increased reliance on Russian imports for grain and manufactured goods
- increased sensitivity to Russian demand
- impoverishment and sedentarisation of nomadic groups
- impoverishment of croppers in irrigated areas
- loss of world trade
- loss of exposure to world technological advances and information flows

The most obvious consequence of all these changes was the general impoverishment of the Central Asian population. The nomadic groups in particular suffered severely, often losing their traditional lifestyle, territory and practices, and were forced to eke out an existence on those lands the Russian colonisers did not want. Similarly, farmers in the irrigated areas frequently did not benefit greatly from the changes wrought by the Russian conquest. Land rights in the region were expropriated completely to the Russian emperor, although tenure was left basically unchanged. Peasants became impoverished through tough credit conditions, the fact that they essentially faced a monopsony buyer, and the retrenchment of small-scale food production (Whitman 1956).

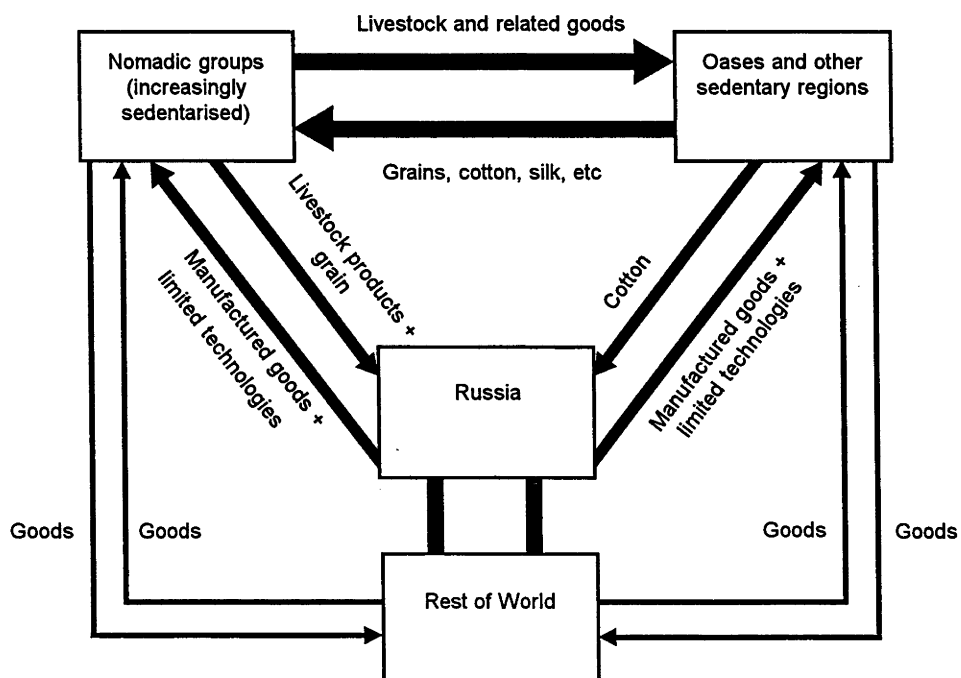
As a region, Central Asia came to rely on Russia to supply its basic grain requirements, and also as a source of processed/manufactured goods. Lacking an outlet to the sea, and bordered by regions that shared similar ecological conditions, Central Asia became more vulnerable than most areas of the world to disruptions in grain supply. At the same time, Central Asian output came to be reliant on Russian demand. The growth of cotton production was to serve Russian, and later Soviet, needs, rather than be sold on world markets.

Together, these factors meant that Central Asia was bound economically, perhaps even more strongly than politically, into the Russian empire, and later the Soviet Union. Any disruption to imports from Russia had the potential to cause widespread famine and suffering, and any loss of Russian demand for Central Asian products would likely cause a collapse in the Central Asian economies. This actually happened during the years of the Russian revolution and subsequent civil war, when Russian demand for cotton plummeted, suddenly reducing cash incomes in the region, and the supply of grain from Europe to Central Asia was cut. The Central Asian response was predictable: cotton cultivation dropped and grain production shot up, but not by enough to cover the loss imports. The result was starvation (Whitman 1956).

Figure 1.2 shows how the Russian conquest altered the region's economic structure.

- 1 There was less basis for trade within the region between the traditionally nomadic and the traditionally sedentary irrigated areas
- 2 Russia came to dominate Central Asian trade both as a source of imports (particularly grain and finished goods) and as a market for Central Asian products. The long-distance Eurasian trade routes through Central Asia collapsed almost completely.

Figure 1.2 Economic structure after the Russian conquest



- 3 The Central Asian economy became more specialised, particularly in cotton production, and Central Asia became less self-sufficient as a region.
- 4 There was a renewed flow of capital, infrastructure and some technologies into the region, but this served specifically Russian interests.

1.6 THE SOVIET ERA

1.6.1 Changes in economic structure

The economic structure of Central Asia changed fundamentally in the Soviet era. This section will outline developments in this period. It does not aim to provide a detailed economic history of the region; rather, it aims to highlight the major changes in economic structure introduced over the course of Soviet rule.

1.6.2 Centralisation of production decisions

The economic system of the Soviet Union has been extensively described elsewhere and will not be rehearsed here.¹⁹ The critical aspects for Central Asia's economic structure were the removal of economic incentives in economic decision-making and, more importantly, the accretion of economic decision-making to the all-Union level. During the tsarist period, policies (such as tariff and trade policies) had been used to influence the economic structure of Central Asia, but more strenuous attempts to alter the economic structures of the region were not seriously pursued. This changed during the Soviet period. For reasons of both ideology and strategy, the Soviets sought first to control and then to direct the types of economic activities undertaken in the region, and hence spurred considerable change in the region.

The Union centre made repeated and increasingly successful attempts to assert direct control over economic decision-making in the region as part of its effort to reconsolidate the former Russian empire as the Soviet Union. In the 1920s this was tempered by pragmatic demands in terms of avoiding further catastrophes in grain output and placating nationalist sentiments, and it was only in 1929 that the centre felt in a strong enough position to move decisively against widespread private ownership in the pastoral and agricultural sectors. It did so by attempting to force farmers and herders into collective organisations—the *kolkhozy* and *sovkhozy*²⁰—to which it could dictate output, yields, inputs and resource allocations.

1.6.3 Collectivisation of both nomadic and sedentary producers

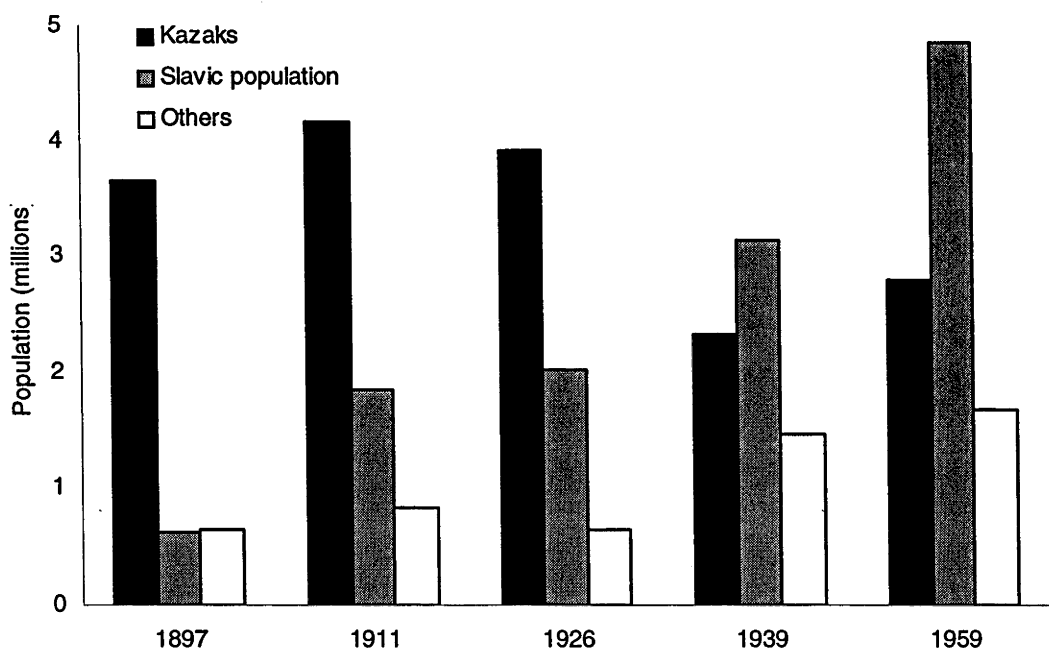
The imposition of collective-based communism was instrumental in the near collapse of traditional social structures, which were considered primitive forms of economic organisation. In the steppe regions, the remaining nomadic groups were pressured to adopt sedentary farming practices and, beginning in the late 1920s, were forcibly formed into various forms of communal production organisation (see Olcott 1981). The upheaval had unnecessarily massive and brutal consequences in terms of social dislocation and economic collapse. Local reactions varied: some groups resisted violently, some emigrated, some slaughtered their stock rather than turn it over to Soviet control. There is no doubt that this created famine in the region, but the famine seems to have been exacerbated by incompetence among officials in establishing the collectives.

Olcott (1981:122) reports that ‘over 1.5 million Kazakhs lost their lives in the decade of the thirties and...nearly 80 percent of the herd was destroyed in the period 1928–30’ owing to a combination of local resistance to the changes and bureaucratic incompetence. Figure 1.3 shows the population dynamic in Kazakhstan—probably the Central Asian country hit hardest by the collectivisation—over the period 1897–1959 and suggests that the Kazak population nearly halved during the early Soviet period while the Slavic population grew. Fluctuations in the sheep and goat population in Kazakhstan are shown in Figure 1.4. The livestock data are drawn from official sources, and probably understate the scale of the collapse, but nonetheless they illustrate a collapse in Kazakhstan’s sheep and goat population between the revolution and the second world war, by which time the population would have recovered slightly.

After the Second World War agricultural production in Steppe regions was increasingly directed towards cropping rather than herding. The ‘Virgin Lands’ scheme, initiated by Khrushchev in 1954, formed a major part of this move. Under this scheme, millions of hectares of supposedly unused land, primarily in Kazakhstan and Western Siberia, were to be ploughed for grain production (Mills 1970; Durgin 1962). Soviet data assert that 18 million hectares of previously unworked land were turned over between 1953–60 for grain production in Kazakhstan alone (Figure 1.5).

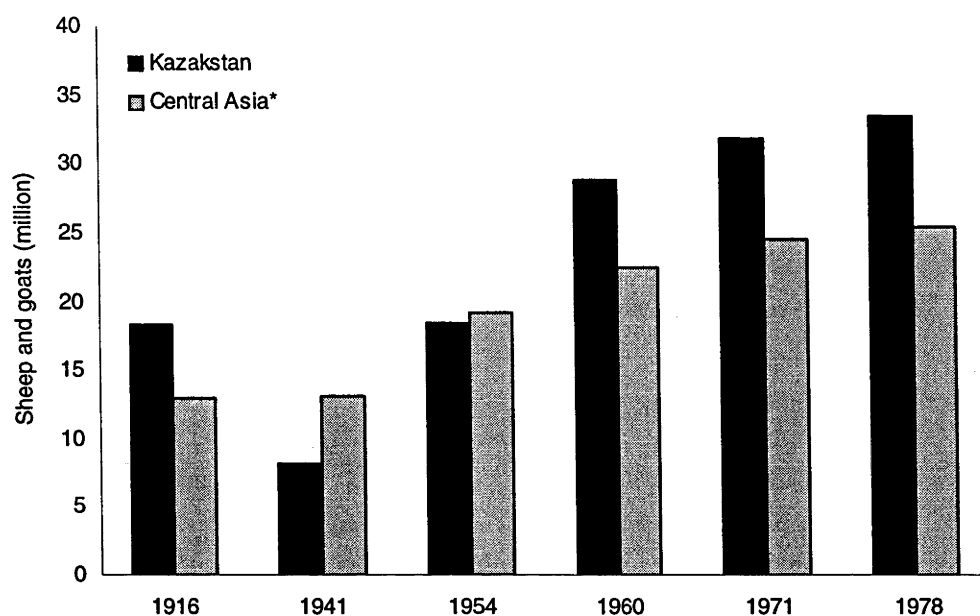
The early results of this were inconsistent, but the scheme was not without success (Durgin 1962). The extension of total land area under given over to grain cultivation had the desired effect of increasing overall grain production, but yields remained stubbornly

Figure 1.3 Populations of Kazakhstan, 1897–1959 (millions)



Source: Alexandrov, M., 1998. Relations between Russia and Kazakhstan, 1992–97, PhD Thesis, Centre for Arab and Islamic Studies, The Australian National University, Canberra.

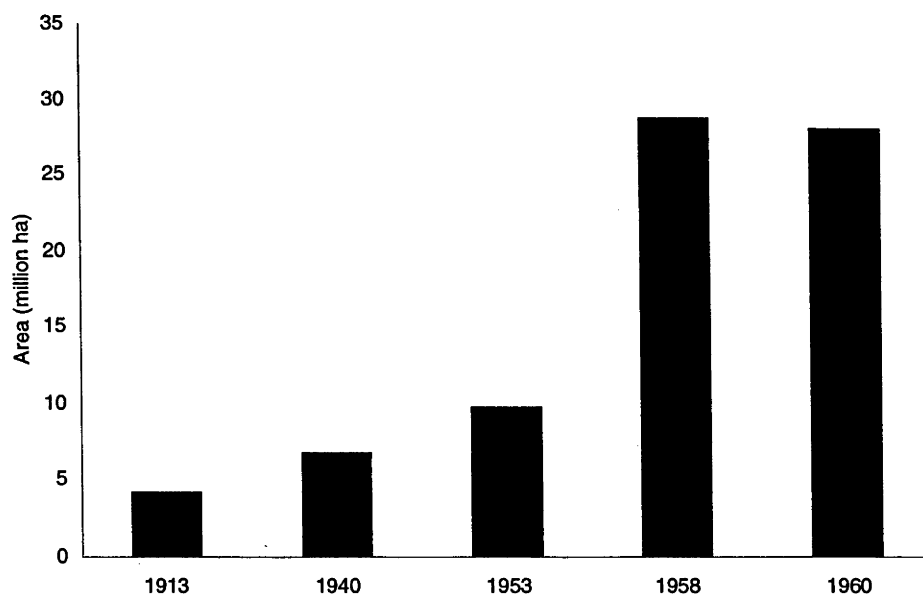
Figure 1.4 Sheep and goat population, Kazakstan and other Central Asian SSRs, 1916–78 (millions)



Note: * Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan.

Sources: Central Statistical Office, 1962. *Narodnoe Khoziaistvo SSSR v 1961 godu: statisticheskiy ezhegodnik*, Gosstatizdat, Moscow; Central Statistical Office, 1978. *Narodnoe Khoziaistvo SSSR: statisticheskiy ezhegodnik*, Statistika, Moscow.

Figure 1.5 Sown area, Kazakstan, 1913–60



Source: Central Statistical Office, 1962. *Narodnoe Khoziaistvo SSSR v 1961 godu: statisticheskiy ezhegodnik*, Gosstatizdat, Moscow.

low.²¹ The problems of the scheme were not long in appearing—production was characterised by inefficiency and outright waste,²² and the environmental consequences were dire. Within a decade, a large portion of the land had been returned to fallow, but only once the soil had been degraded to the point where it could not sustain any further activity (McCauley 1976). The time taken to reach this point was minimised, however, by a politically-motivated aversion to rotating fields through fallow periods. The conditions, and soil types in particular, were not really suited to this type of agriculture. Much of the region's topsoil was as a result lost in extensive windstorms through the 1960s, a foreseeable event precipitated largely by the removal of the native vegetation.²³

The social consequences were similarly massive. The scheme continued the restriction of lands available for livestock production and, as such, continued the repression of the indigenous Kazak populace and their traditional practices. Some two million Soviet citizens were brought in, largely from the Slavic regions of the Soviet Union, to staff the new farms set up under the scheme (Laird and Chappell 1961), but there seems to have been little role for native Kazaks in the new system. The Kazak population of Kazakhstan was, of course, further diluted by this renewed influx of Slavic groups.

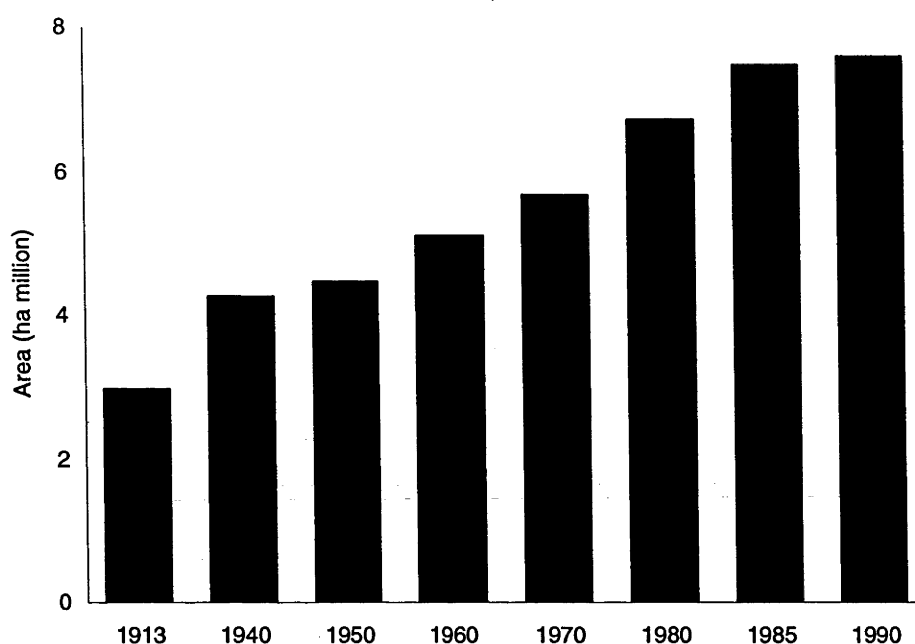
1.6.4 Extension of cotton production

The upheaval in the steppe zones was paralleled by that in the oasis areas. Agricultural production had earlier been carried out by large numbers of small-holders who contracted wage labour and sharecroppers. Irrigation was crucial to this agricultural production, and there was a strongly developed, entrenched and complex system of water allocation (Matley 1970). The Soviets broke up both the landholding and the water allocation systems and re-organised them on a collective basis (with minimal private activity). Their aim was to eliminate private landholders as a class and centralise production decisions under their own control.

The Soviets came to be more aggressive than their Tsarist predecessors in turning agriculture away from food production (except during the war years) towards production of cotton. They also devoted far more effort to increasing the area available for cotton production (Matley 1970). Attempts were made to increase cotton production by extending the area devoted to it, at the expense of grain production, and by extending the area under irrigation through large-scale canal and irrigation channel construction (Matley 1970). Increases in yield were sought through application of 'more scientific' crop management practices such as more extensive use of fertiliser and 'more rational' application of water. Data on the irrigated area in Central Asia are shown in Figure 1.6, and they suggest that the irrigated area rose approximately 250 per cent between 1913 and 1990. This data should be interpreted with caution, but is reasonably consistent with data presented by other authors (eg. Rafikov 1983; UNECE 1957).

Whereas the bulk of irrigated land (greater than 60 per cent) was devoted to grain production in 1913, by the mid 1950s grain production accounted for only 10 per cent of irrigated land in Central Asia (UNECE 1957). The area devoted to grain production throughout Central Asia fell or remained steady throughout the early-mid twentieth century, except in Kazakhstan (Table 1.1), even though the total amount of arable land was increasing throughout the period. In assessing the data in Table 1.1, it should be

Figure 1.6 Irrigated area, Central Asia, 1913–90



Source: Ivanov et al., 1996. 'Review of the scientific and environmental issues of the Aral Sea Basin', in P.P. Micklin and W.D. Williams (eds), *The Aral Sea Basin*, Springer, Berlin.

Table 1.1 Area devoted to grain and cotton production, Central Asian SSRs, 1913–71

	1913	1940	1953	1960	1971
Grain production (million hectares)					
Kazakstan	3.89	5.82	7.03	22.11	22.4
Kyrgyzstan	0.56	0.78	0.66	0.66	0.56
Tajikistan	0.44	0.57	0.45	0.38	0.22
Turkmenistan	0.20	0.18	0.08	0.07	0.08
Uzbekistan	1.54	1.48	0.97	0.96	1.1
Cotton production (thousand hectares)					
Kazakstan	20	102	113	106	118
Kyrgyzstan	22	64	81	71	77
Tajikistan	27	106	146	176	261
Turkmenistan	69	150	172	222	401
Uzbekistan	425	924	1152	1387	1707

Sources: Central Statistical Office, 1962. *Narodnoe Khoziaistvo SSSR v 1961 godu: statisticheskii ezhegodnik*, Gosstatizdat, Moscow; Central Statistical Office, 1972. *Narodnoe Khoziaistvo SSSR 1922–72*, Statistika, Moscow.

noted that the 1940 figure, coming immediately prior to the Soviet Union's entry into the Second World War, probably gives an inflated figure for the amount of land devoted to grain production.

Fertiliser and pesticide use turns out to have been inappropriate or excessive in many cases, causing damage to the health of both the soil and the people that work it (Peterson 1993; Lubin 1989). And the 'rational' application of water appears to be something of a misnomer given the combination of poor water transport and storage practices, which led to massive losses through evaporation and seepage, and excessive irrigation, which led to a rising water table and salinisation (Peterson 1993).

Micklin (1992) points to 1988 data which indicate that water users were essentially extracting all available water from the river systems, as well as some groundwater, in that year, between 80 and 90 per cent of this for agricultural uses. Just over 25 per cent of the water extracted from the Amu-Darya and Syr-Darya rivers was lost in transport, but the figure for the 'other' river systems—including the notorious Karakum Canal—was 42 per cent (see also Peterson 1993).²⁴ That these practices had, by the later half of the twentieth century, reached a socially and economically unhealthy, and environmentally unsustainable, level has been extensively documented by Rumer (1989) among others.²⁵

The Soviet approach to agriculture in Central Asia fairly consistently reprises the base problem in the Soviet economy. A politically-motivated perception that the Soviet Union had to keep up with Western countries called for constant increases in output of just about everything; but where economic growth was achieved in Western economies through a combination of increased inputs, increased productivity, and technical change, the Soviet economy relied far more on pure increases in inputs. As we shall see later, the insusceptibility of productivity to repeated efforts at raising it, and the consequent recourse to extensive growth in place of intensive growth, is considered by some to be a factor in the economic stagnation of the late Soviet period. The Virgin Lands scheme, the glorious engineering of ever more wasteful irrigation projects, the mindless overuse of fertiliser, are all just iterations of this basic problem: instead of introducing ways of increasing productivity per worker or per hectare of land, instead of properly disseminating new technologies, it was simply quicker and easier to expand inputs.²⁶

1.6.5 Diversifying production: industrial growth

Although the Central Asian economies were further diverted towards production of primary products for all-Union production processes, there was some move to diversify the types of production in Central Asia. Black et al. (1991:238) make probably the most positive assessment, arguing that '...the rapid growth of industrial development during the decade before the war was impressive', but they concede that efforts were concentrated on developing mineral extraction industries. Some secondary industries were developed in areas such as textile manufacture, machine building and food processing (Black et al. 1991), but this was fairly limited and largely devoted to satisfying some of the local demand for particular goods and materials. Dienes (1987), for example, notes that in 1975 only 6.5 per cent of Soviet cotton textiles was manufactured in Central Asia, even though the region accounted for well over 90 per cent of the Soviet Union's raw cotton output at the time (Tables 1.2 and 1.3).²⁷

Table 1.2 Grain and raw cotton production, Central Asian SSRs, 1913–78
(‘000 tonnes)

	1913	1940	1953	1960	1978
Grain production					
Kazakstan	2162	2516	5439	18844	29826
Kyrgyzstan	436	588	516	754	1360
Tajikistan	202	324	247	274	305
Turkmenistan	159	124	62	41	258
Uzbekistan	1025	601	689	807	2001
Raw cotton production					
Kazakstan	15	94	163	174	261
Kyrgyzstan	28	95	134	126	205
Tajikistan	32	172	390	399	909
Turkmenistan	69	211	308	363	1027
Uzbekistan	517	1386	2432	2824	5500
Cotton production as per cent of USSR total					
Uzbekistan	69.5	61.0	63.1	65.8	64.7
Other Central Asian SSRs	19.4	25.2	25.8	24.8	28.3

Sources: Central Statistical Office, 1962. *Narodnoe Khoziaistvo SSSR v 1961 godu: statisticheskii ezhegodnik*, Gosstatizdat, Moscow; Central Statistical Office, 1978. *Narodnoe Khoziaistvo SSSR: statisticheskii ezhegodnik*, Statistika, Moscow.

Table 1.3 Production of cotton fabric, USSR, Uzbekistan and other Central Asian SSRs, 1913–60 (million metres)

	1913	1940	1960	1970	1974/75
USSR	2671.5	3953.8	6386.7	7482	7810 ^a
Uzbekistan	..	107.4	234.7	210	218 ^b
Other Central Asian SSRs	..	10.04	96.9	n.a.	n.a.
Percent of USSR total					
Uzbekistan	..	2.7	3.7	2.8	2.8
Other Central Asian SSRs	..	0.3	1.5		

Note: ^a 1975 figure. ^b 1974 figure. ^c Including Kazakstan

Sources: Central Statistical Office, 1962. *Narodnoe Khoziaistvo SSSR v 1961 godu: statisticheskii ezhegodnik*, Gosstatizdat, Moscow; Central Statistical Office, 1978. *Narodnoe Khoziaistvo SSSR v 1961 godu: statisticheskii ezhegodnik*, Gosstatizdat, Moscow; Central Statistical Office (Uzbek SSR), 1974. *Narodnoe Khoziaistvo Uzbekskoy SSR v 1974 godu: statisticheskii ezhegodnik*, “Uzbekistan”, Tashkent.

The Second World War gave a further boost to industrialisation of the region, particularly Kazakstan, when industries were evacuated from the European republics into the interior of the Soviet Union.²⁸ After the war, this scale of industrialisation was only briefly recovered during the 1960s, with the move in that era towards increased regional economic self-sufficiency (Rumer 1989).

That said, it is not always clear that the types of manufacturing developed in Central Asia would have been economically feasible in a market economy (Rumer 1989; see also Dyker 1970 for a case study of some Tajik industries). This industrialisation

moreover arguably did not significantly alter economic structures, in that it employed mostly Russian immigrants rather than drawing Central Asians away from agricultural and pastoral activities (Black et al. 1991, see also Wheeler 1955) and largely relied on the centre for infusions of funds and capital. By way of explanation, however, Rumer (1989:60) makes the cogent point that

[i]f Central Asia is unique as a producer of cotton and silk, Moscow finds it expedient to shift the processing of nonferrous metals and chemical production to other regions, where the water shortage is less acute.

1.6.6 Minerals and energy

One area that definitely developed during the Soviet period was the extractive industries. Oil and gas extraction, concentrated mostly in Kazakstan and Turkmenistan, grew rapidly in the 1960s and 1970s (Table 1.4; Rumer 1989). These developments were undertaken to increase the overall supply of these products within the Soviet Union. At the same time, coal mining was developed in parts of Kazakstan and Kyrgyzstan, and hydroelectric energy was tapped in Kyrgyzstan and Tajikistan. Rumer (1989) argues that the extractive industries were developed in Central Asia primarily to

Table 1.4 Production of oil, natural gas and coal: USSR and the Central Asian SSRs, 1913–60

	1913	1940	1950	1960	1992
Oil (thousand tonnes)					
USSR	10281	31121	37878	147859	..
Kazakstan	118	697	1059	1610	26000
Kyrgyzstan	..	24	47	464	110
Tajikistan	10	30	20	17	60
Turkmenistan	129	587	2021	5278	5200
Uzbekistan	13	119	1342	1603	3300
Natural gas (million m³)					
USSR	304.0	3219.1	5761	45303.2	..
Kazakstan	1.3	3.9	7	39.4	8800
Kyrgyzstan	..	..	..	41.2	60
Tajikistan	0.3	2.2	n.a.	..	85
Turkmenistan	..	9.2	65	234.4	60000
Uzbekistan	..	0.7	52	446.6	4700
Coal (thousand tonnes)					
USSR	29153	165923	216100	513186	..
Kazakstan	90	6972	17400	32375	130000 ^a
Kyrgyzstan	103	1475	1900	3502	3500 ^a
Tajikistan	28	204	400	854	300 ^a
Turkmenistan	27	2.3	..	..	..
Uzbekistan	..	3.4	1500	3410	5900 ^a

Note: ^a1991 figures.

Sources: Central Statistical Office, 1962. *Narodnoe Khoziaistvo SSSR v 1961 godu: statisticheskii ezhegodnik*, Gosstatizdat, Moscow; Central Statistical Office, 1978. *Narodnoe Khoziaistvo SSSR: statisticheskii ezhegodnik*, Statistika, Moscow; Statkomitet SNG, 2001. *SNG v 2000 godu*, Statkomitet, Moscow; Levine, R.M., 1994. 'Mineral industry in Kazakstan/Kyrgyzstan/Tajikistan/Turkmenistan/Uzbekistan' in USGS (ed.), *Minerals Yearbook 1994*, Volume 3: Area Reports—International, USGS, Reston, Virginia.

fulfil needs in the other republics. This appears unsupported by the aggregate interrepublican trade data, which suggests that the region was a net oil and gas importer (see Figure 1.9), but assessment is clouded by the fact that most of the region's oil was exported unrefined but considerable amounts were also imported from outside the region for refining (Pomfret 1995).

As well as developing the region's energy resources, the Soviet authorities expanded the extraction of other minerals; gold was the most prominent of these, but there were others; copper in Kazakstan, uranium in Tajikistan (Dienes 1987). Again, the focus of this activity was on merely extracting the raw materials rather than developing extensive value-adding industries.²⁹

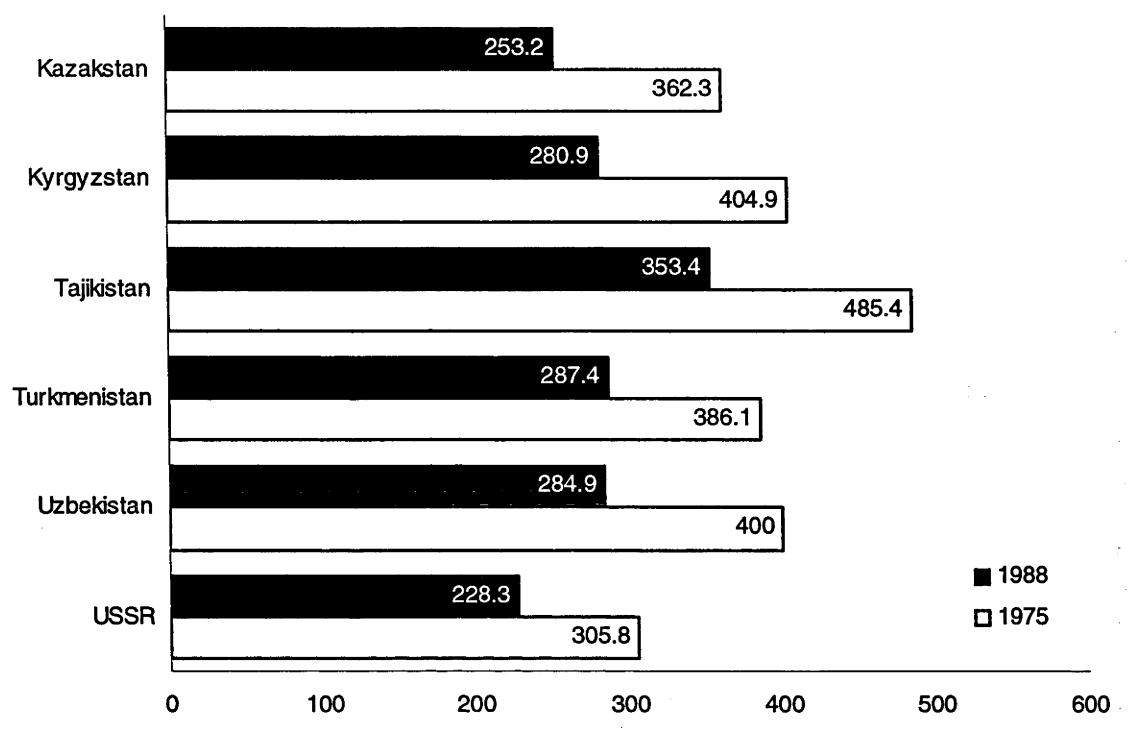
1.6.7 Socio-economic improvements

Whereas the Tsarist rulers limited infrastructural investment and development to projects that served imperial economic and strategic needs, the Soviet era saw a conscious effort to raise levels of income and social well-being through investments in education, improved production methods and industrialisation, capital developments, infrastructural developments, education and health services.³⁰ One impact of Soviet rule in Central Asia was to raise income levels and social standards, in terms of health and education, far above the levels that would have been achieved otherwise. As a UNECE report from 1957 notes: 'In these fields [health and education] the standards in central Asia have improved so strikingly in the period of Soviet rule that the relevant comparison is no longer with neighbouring Asian countries, but with the countries of Western Europe' (UNECE 1957:71). This is substantiated by Jukes (1973), who compared the Central Asian republics with their regional neighbours using 1967 figures. He found that on average Central Asia had one hospital bed per 100 people, compared with one per 960 in Iran, 560 in Turkey, and 5,810 in Afghanistan. Similarly, Central Asia had one doctor per 430 people, compared to one per 3820 in Iran, 2760 in Turkey and 21,360 in Afghanistan, and provision of medical services appears to have been instrumental in rapidly bringing down mortality rates in the Soviet regions (UNECE 1957; Field 2002).³¹ Equivalent statistics for later periods are presented in Figure 1.7, which imply a continuous increase in provision of health services in the region throughout the Soviet period.

The extension of educational facilities and staff in the region raised literacy from negligible levels at the outset of Soviet rule to almost complete literacy.³² This was complemented by simultaneous development of higher education (UNECE 1957:72). Again Jukes (1973) substantiated this, finding tertiary education enrolments in Central Asia higher, if not far higher, than in obvious comparator countries. Thus, on average, 1 person in every 127 was a full-time tertiary student in Central Asia, compared to 1 in 383 Iranians, 1 in 224 Turks and 1 in 3,200 Afghans.³³

Such factors set the region apart from its neighbours during the Soviet period, and continue to set the Central Asian republics apart from countries with similar income levels now despite the CARs' considerable difficulties in funding social services in the post-Soviet period (see Chapter 7).

Figure 1.7 Number of people per doctor, Central Asia, 1975 and 1988



Source: Goskomstat, 1990. *Sotsial'noe razvitie: statisticheskii sbornik*, Goskomstat, Moscow.

1.6.8 Why was this approach adopted?

The Soviet approach was pragmatic and ideological. In the first sense, Soviet policy in Central Asia shared the aims of its Tsarist predecessors—to secure the region as a part of the ‘empire’, and more specifically to extend and intensify its role as a source of raw materials for largely metropolitan production.³⁴ In addition, the Soviets, even more than the Tsarists, sought to eliminate the USSR’s reliance on imports from external sources, which meant that domestic sources had to be expanded and developed. This need drove both the cotton specialisation in the Southern regions of Central Asia and also the Virgin Lands scheme in Kazakhstan. Shahrani (1993), however, further argues that the metropolitan centre sought to bind the region into the Union by exacerbating its economic dependency on the Union. He argues that Central Asia was so overspecialised in raw materials, particularly cotton, production it could not survive without substantial resource transfers from other areas of the Soviet Union. There is probably an element of truth in this, but it also needs to be considered in the context of the Soviet Union’s economic requirements. If we accept as given the ideological urge towards autarky in Soviet economic policy, the concentration of Central Asia on cotton production makes some sense: cotton was an important crop, and Central Asia was in practice the only Soviet region with climatic conditions favourable for its cultivation.

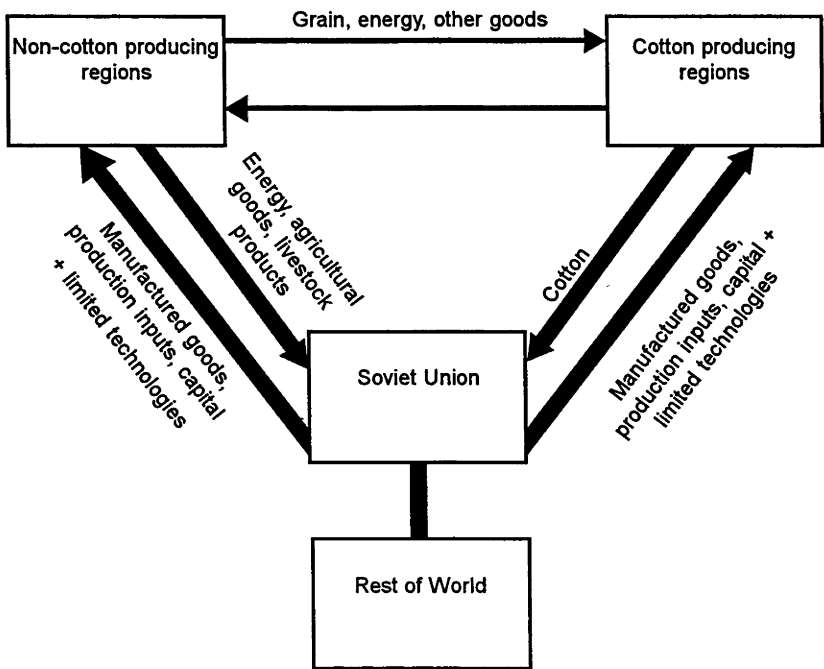
The diversification of production seems also to have met ideological aims. Such undertakings were made on the understanding that inter-regional equality was as important as inter-personal equality (Rumer 1989). As Central Asian industrialisation never reached anything more than a minor complement to industrial production elsewhere, however, it is hard to see it as anything other than a token effort.³⁵

Beyond tokenism were the developments in socio-economic conditions, and the massive subsidies allocated to this end, particularly to improving health and education standards. There were of course ideological and pragmatic aspects to the industrialisation efforts and the improvement in socio-economic conditions. The policy was ideological in that it sought to lift the region out of its perceived backwardness—modernisation was seen as the key to socialist/communist development; traditional conditions and practices could only retard this development. The other aspects were pragmatic: traditional practices, particularly religious practices, could act as an alternate focus of control and power in the region. Education and science, it was thought, would expose the backwardness of such practices and hence draw people away from the old centres of power towards the new. The policy was also pragmatic in the external sense in that the improved conditions enjoyed by Central Asians (as both Muslims and ‘Asians’) could act as a demonstration to other Muslims and Asians outside the Soviet Union of the wisdom and necessity of following Soviet ways (Jukes 1973; Umarov and Mahmadshev 2001).

1.6.9 Consequences of the Soviet dominance

The Central Asian economies had become highly dependent on Russia as a source of secondary and tertiary products, and as a market for primary products, in the Tsarist era. In the Soviet era, this deepened and Central Asia became almost completely dependent on the Russian centre as a market for exports from the region, a source of industrial goods, and particularly as a source of investment in productive capacities, infrastructure and social services. Figure 1.8 presents a simplified model of the Central Asian economies in the Soviet period.

Figure 1.8 Economic structure in the Soviet era



The industries established in Central Asia after the war were often propped up by massive subsidies from the all-Union budget. Similarly, relatively high levels of social services, such as health care and education, were achieved by way of financial support and transfers from the centre—it is unlikely that such levels could have been maintained on the resources available to each republican government alone. Reliance on the centre was also found in things like capital growth and infrastructure creation, and technological advances (Jukes 1973). Moreover, the fact that Central Asia was essentially precluded from engaging in trade or independent foreign relations meant that the region came to rely on the centre for expertise in these areas and became, if possible, even more isolated from the rest of the world than most other Soviet republics.³⁶

As noted above, Soviet policy in the region had severe environmental impacts. Aside from the well-known Aral Sea problem, Soviet agricultural practices led to desertification, waterlogging, salinisation, accelerated soil erosion by wind and water, contamination of the soil, water resources and food chain by pesticides and fertilisers. The environmental consequences have persisted long after the collapse of the Soviet Union, and in many cases will probably persist long after those responsible for creating them have died (see also Lubin 1989, 2000).

Central Asia's relationship with the Union, however, was not completely negative. It is clear that being part of the Soviet Union delivered certain benefits to the region, not only in terms of the economic developments outlined above, but also in terms of lifting standards of living, providing modern educational systems, and establishing a framework for social support among other things. This goes some way to explaining the region's ambivalence towards the collapse of the Soviet Union.

1.7 CENTRAL ASIAN PERSPECTIVES ON THE COLLAPSE OF SOVIET UNION

A few aspects of the collapse of the USSR need to be mentioned; these relate to Gorbachev's referendum of March 1991, the failed coup of August 1991, and the formation of the Commonwealth of Independent States (CIS) in December 1991. In an attempt to avert the collapse of the Soviet Union, and implicitly to counter the rise of Boris Yeltsin, Gorbachev held a referendum on 17 March 1991, which asked: 'Do you consider it necessary to preserve the USSR as a renewed federation of equal sovereign republics, in which human rights and the freedom of all nationalities will be fully guaranteed?'.³⁷ Where a number of the republics refused even to hold the poll, the Central Asian republics held it and the voters supported Gorbachev's proposal emphatically. Results ranged from a low of 83.6 per cent of voters in favour of the proposal in Kazakhstan to a high of 95.7 per cent in Turkmenistan. By contrast, only 69.7 per cent of Azerbaijanis, 58.1 per cent of Ukrainians, and 52.8 per cent of Russians supported the proposal (*The Economist*, 23 March 1991). While there were repeated bouts of political unrest in the lead-up to 1991 in many of the Central Asian republics, these results imply that there was no obvious groundswell of support for dissolution of the Soviet Union among the people.

Similarly, responses differed among the Central Asian leaderships to the August 1991 putsch by communist hardliners. The coup leaders seem to have had a number of aims, but primarily hoped to prevent an agreement between the Soviet Union and its

constituent republics that would devolve considerable power to the republican-level governments (Sakwa 2002; *The Economist*, 24 August 1991). Among the Central Asian leaders, only Akaev actively opposed the coup, evading arrest in a standoff between his own security staff and KGB agents sent to detain him (Hiro 1994). Nazarbaev opposed the coup but was somewhat tardy in denouncing it, Niyazov remained 'neutral', or probably more precisely 'silent', and Karimov initially supported the coup, but quickly reversed this support when it became clear who had won (*Independent*, 24 August 1991; *Independent*, 24 August 1991). Tajikistan's president at the time, Kakhar Makhkamov, also supported the coup. It is clear from this that the leaders of the Central Asian republics were not ready at this stage to commit to the unravelling of the USSR. In all cases they either prevaricated³⁸ or actively aligned themselves with the old regime, even though the agreement sought by Gorbachev and Yeltsin would substantially raise their own personal power.

Similarly, the Central Asian republics were passive (non-)observers to the creation by Russia, Belorussia and Ukraine of the Commonwealth of Independent States on 8 December 1991.³⁹ Even after the leaders of these republics signed the agreement to disband the Soviet Union and establish the CIS, Nazarbaev persisted in backing Gorbachev and the Soviet Union.⁴⁰ Karimov was similarly conservative. Nonetheless, all the Central Asian republics took part in the meeting to found the CIS in Almaty on 20 December 1991 (Sakwa 2002; *Reuters*, 20 December 1991, 21 December 1991).

What this points to is the passive/reactive role of the Central Asian leaderships in relation to developments within the Soviet Union. Unlike many other Soviet republics and the countries of Eastern Europe, there was no broadly-based nationalistic enthusiasm to escape from or dissolve the Soviet Union among the region's populations as a whole or among its élites. Rather, the Central Asian republics persistently fought to maintain the *status quo*, only accepting change when it became clearly inevitable.

1.8 PECULIARITIES OF THE CENTRAL ASIAN ECONOMIES AT INDEPENDENCE

The preceding section illustrated the changes imposed by the all-Union centre on the economies of Central Asia during the Soviet period. Prime among these were the strong specialisation in raw materials production, the limited and often uneconomic development of industry, isolation from world trade, and high reliance on inputs and subsidies from the all-Union budget. The following section expands on these points and introduces a number of additional reasons why the Central Asian economies are distinct from most other transition economies.

1.8.1 Structural factors

The economies of Central Asia are fundamentally different from most others currently undergoing transition. They are even quite different from those found elsewhere in the former Soviet Union. Why? First, the economies of Central Asia have historically been dominated by primary production; namely, agriculture and extraction of mineral resources. Secondary and tertiary production have played a rather limited role in the their economies (Tables 1.5 and 1.6). The figures for the industrial share in the economic structure presented in Table 1.5 do not give a clear indication of this because

Table 1.5 Structure of the Central Asian Economies: Net Material Product by origin at current prices, 1980–90 (per cent of total NMP)

	Kazakstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan	Russia	Ukraine
1980							
Agriculture	25.9	30.4	34.5	34.3	34.1	9.9	18.3
Industry and construction	47.4	48.1	45.8	42.9	44.5	66.4	58.8
Services	26.6	21.5	19.7	22.9	21.4	23.7	22.8
1990							
Agriculture	41.9	43.2	36.8	47.9	44.3	20.0	30.4
Industry and construction	37.0	43.8	41.4	33.5	38.6	55.0	51.0
Services	21.2	13	21.8	18.6	17.0	25.0	18.6

Source: World Bank, 1993. *Statistical Handbook 1993: states of the former USSR*, World Bank, Washington, DC.

they include mineral and energy extraction as part of the industrial share. They do, however, show that agriculture was a far larger proportion of the CAR's economies than of Russia's or Ukraine's, representing 26–35 per cent of the economic activity in the Central Asian republics, compared to 10 per cent in Russia.

A further breakdown of the late-Soviet industrial structure is presented in Table 1.6. Using machinery and metalworking production as an indicator of secondary level production, we can see that it played a minor role in industrial production in the Central Asian economies compared to Russia and Ukraine, and therefore an even lesser role in the overall economic structure of these republics (Table 1.6). Transformative industry—or, alternatively, value-adding industry—played little role in the Central Asian economies overall.

The unusual structure of the Central Asian economies is underlined by the sector shares of employment (Table 1.7). The Central Asian economies employed a far higher share of workers in agriculture than the European republics. Only Kazakstan approached the kind of employment share seen in the European republics, with 25.5 per cent of workers employed in agriculture, whereas elsewhere in Central Asia 30 per cent or more of the population was thus engaged. Russia and the Ukraine, by contrast, employed around 13 and 20 per cent respectively of their workers in this sector.

The demographic structure of the Central Asian republics also contrasts with that of the European republics. The CARs have extremely young populations: 30–40 per cent of all their citizens were less than 15 years old in 1987, compared with around 20 per cent in Russia and the Ukraine. At the same time, the European republics have higher dependency ratios at the opposite end of the age profile, with far higher proportions of the population aged 60 or over (Tables 1.8 and 1.9).

Taken together, these factors suggest that the Central Asian economies are far closer to being pure developing economies than the European transition economies. The issues are those of developing economies: finding ways of dealing with the extremely young population (training, education, etc.), raising agricultural productivity, reducing

Table 1.6 Structure of industrial production, 1980s (per cent of all industrial production)

	Kazakstan		Kyrgyzstan		Tajikistan		Turkmenistan		Uzbekistan		Russia		Ukraine	
	1985	1990	1985	1990	1985	1989	1980	1990	1980	1990	1980	1990	1980	1990
Heavy industry ^a	66.5	65.0	62.3	64.0	38.7	42.4	46.5	44.7	40.8	42.3	69.3	73.4	65.5	61.6
Light industry	15.8	15.6	16.2	15.6	45.5	42.8	41.4	41.0	38.8	36.7	15.8	12.6	11.1	12.3
Food processing	17.7	19.3	18.7	20.4	15.7	14.9	12.0	14.4	15.4	14.6	14.9	13.9	19.5	26.1
Machinery and metalworking	10.5	10.2	10.9	10.3	8.8	9.8	4.8	5.3	11.5	11.0	32.1	32.1	27.3	26.4
Textiles and clothing	13.7	5.3	14.2	13.7	..	..	39.4	40.0	36.4	34.4	13.8	32.6	9.1	10.3

Note: a Heavy industry data were not available for Tajikistan. The figures here were derived by subtracting the figures for light industry and food processing from the overall total.

Source: World Bank, 1993. *Statistical Handbook 1993: states of the former USSR*, World Bank, Washington, DC.

Table 1.7 Sectoral shares of employment, 1990 (per cent)

	Kazakstan		Kyrgyzstan		Tajikistan		Turkmenistan		Uzbekistan		Russia		Ukraine	
	1985	1990	1985	1990	1985	1989	1980	1990	1980	1990	1980	1990	1980	1990
Agriculture and forestry	25.5		32.7		43.1		41.9		39.3		13.2		19.8	
Industry and construction	36.1		27.9		21.8		20.8		24.1		42.3		40.4	
Others	38.4		39.4		35.1		37.3		36.6		44.5		39.8	

Source: World Bank, 1993. *Statistical Handbook 1993: states of the former USSR*, World Bank, Washington, DC.

Table 1.8 Population base: Central Asia, Russia and Ukraine, 1990

	Kazakstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan	Russia	Ukraine
Population (millions)	14991	4355	5232	3657	20227	148164	51839
Rural share (per cent)	51.8	50.9	50.3	50.6	50.6	26.2	32.7

Source: World Bank, 1993. *Statistical Handbook 1993: states of the former USSR*, World Bank, Washington, DC.

Table 1.9 Population under 15/above 60, 1959 and 1987 (per cent)

	Population under age 15		Population over age 60	
	1959	1987	1959	1987
Kazakstan	35.6	31.4	7.8	9.4
Kyrgyzstan	37.2	37.5	9.7	7.8
Tajikistan	38.8	42.4	7.9	6.4
Turkmenistan	38.3	40.5	7.9	6.1
Uzbekistan	37.9	40.7	9.4	6.5
Russia	29.2	22.6	9.0	14.7
Ukraine	26.0	22.0	10.5	16.8

Source: Goskomstat, 1988. *Naselenie SSSR 1987: statisticheskii sbornik*, Goskomstat, Moscow

underemployment in the agricultural sector and freeing up resources currently in the agricultural sector to move into other sectors.

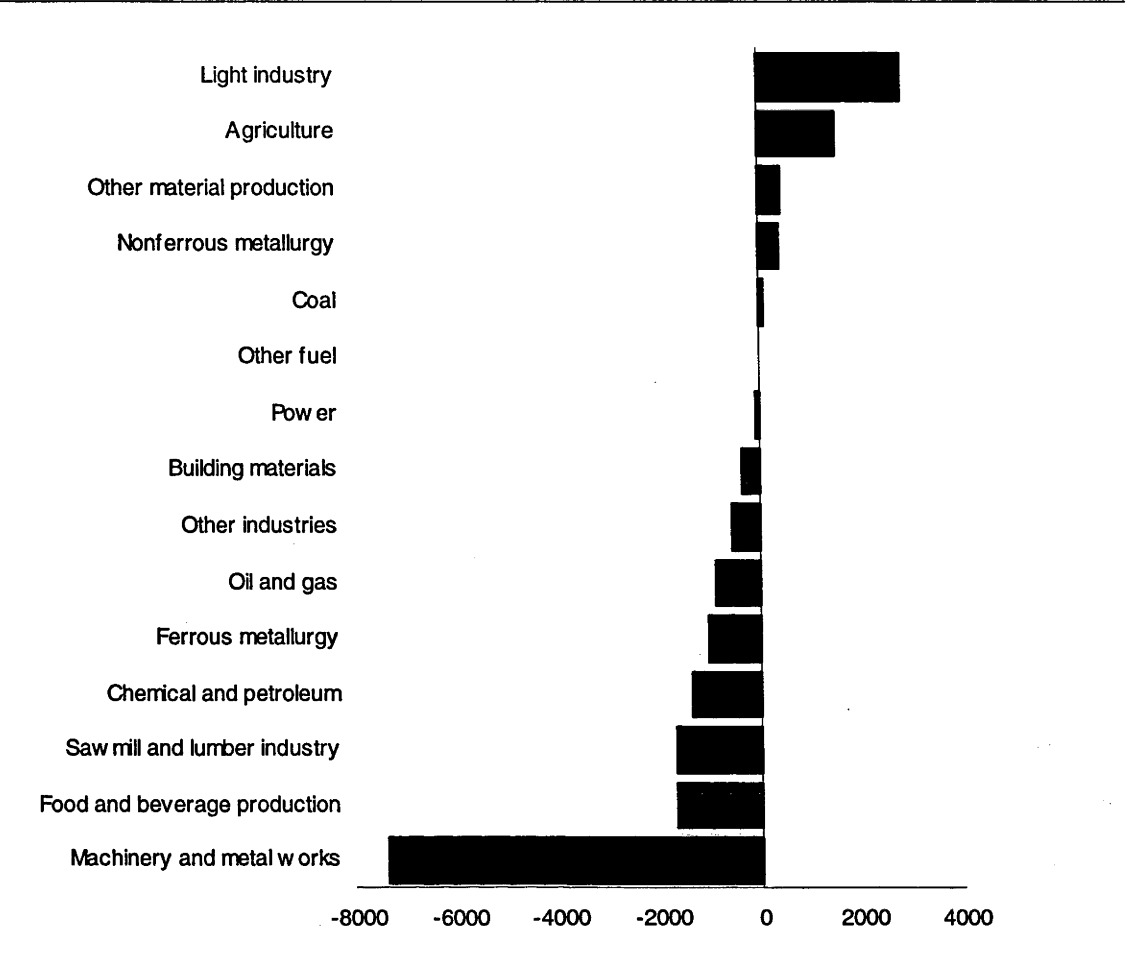
Second, the Central Asian economies were substantially geared towards production of inputs into all-Union production processes. Figure 1.9 shows Central Asia's interrepublican trade balance for major commodities in 1987. This indicates that Central Asia was an overall net importer from the other republics of the Soviet Union. Second, Central Asia's major export goods were light industrial products, agricultural products and non-ferrous metallurgy. It was a relatively large importer of food and beverages and machinery and metalwork goods (Figure 1.9). Secondary and processing industries were relatively rare and underdeveloped. The industrialisation that took place was prompted by direct transfers from outside the region. As Shahrani (1993:128) notes '...all equipment and machinery was brought to the area from Russia'; the factory managers tended also to be European. Narzikulov describes it as a dual economy,

the larger part of which (the agricultural sector) employs mainly the local population, while in the smaller (industrial) part the bulk of [the] labour force is Russian-speaking. Internal links between the two parts, whereby agriculture might have provided a source of labor for developing industry, in fact were practically non-existent (1993:434).

In a similar vein, transport and energy linkages were designed with the object of supplying the USSR and links with regional neighbours were few and incomplete (see section 1.6.2).

Third, the Central Asian states relied on an annual infusions of funds from the central Soviet budget—equivalent to 15–30 per cent of republican GDP—to subsidise republican government activity (Figure 1.10). This allowed the Central Asian republics

Figure 1.9 Central Asia regional trade balance in major goods, 1988
(million roubles)



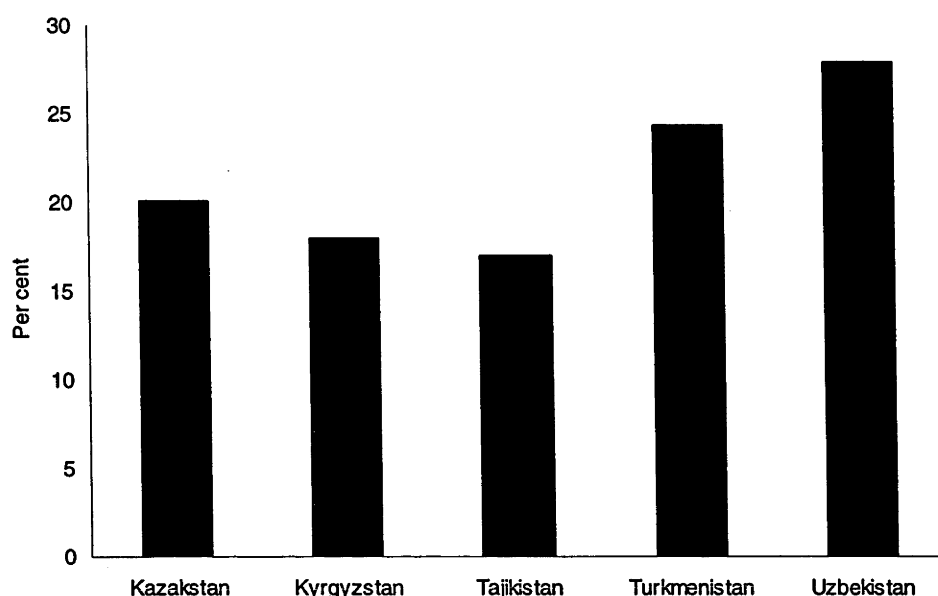
Source: World Bank, 1993. *Statistical Handbook 1993: states of the former USSR*, World Bank, Washington, DC.

to achieve levels of social development—particularly in terms of health standards and overall educational levels—in the later stages of the Soviet Union far higher than would probably otherwise have been possible.⁴¹ Orlowski, who provided the foundation study (1995) of this topic, argues that the transfers served political ends: to preserve inefficient enterprises in economically depressed areas, to compensate for losses arising from anomalous fixed prices, which hit state farms in Central Asia particularly severely; and to provide the infrastructure needed in region with high population growth rates.⁴² What is clear is that they enabled the Central Asian republics to achieve levels of government spending—and therefore to provide infrastructure and services—that they could not have otherwise.

1.8.2 Geographical factors

Recent research by economists such as Gallup and Sachs (1999), Demurger et al. (2001), Kopstein and Reilly (2000), Redding and Venables (2004), has renewed interest in the role that geographical location plays in transition and economic development. This literature highlights the fact that geographical factors do play a role in explaining

Figure 1.10 Net transfers from all-Union budget to republican budgets as proportion of total republican government revenue (per cent)



Source: Orlowski, L.T., 1995. 'Direct transfers between the former Soviet Union central budget and the republics: past evidence and current implications', *Economics of Planning*, 28(1):59–73.

economic performance, seem to play a role in explaining political developments, and have an impact on institutional development. Gallup and Sachs (1999) and Demurger et al. (2001) look at the importance of geography in terms of whether or not countries and regions are landlocked. Redding and Venables (2004) discuss the importance of access to markets and suppliers in determining economic performance. Sachs (1997a) discusses geographic influences on economic performance with specific reference to the transition economies, arguing that geography can influence not only trade and investment but also policy choices.

The basic idea is that being landlocked, in the modern world economy, makes it more difficult and more expensive for a country or region to engage in trade. One of the basic tenets of economic theory is that trade forms the basis of division of labour and hence of economic growth. Thus, the more open a country is to trade, the more likely it is to experience increased division of labour and increased economic growth (all other things being equal!) (Sachs 1997a). Gallup and Sachs (1999:7) find that very few landlocked countries outside Central and Western Europe are not poor, and those landlocked countries that are not poor tend to have navigable bodies of water connected to the main trading routes and/or are highly integrated into low-cost transport networks. Demurger et al. similarly find that access to navigable waterways is an important explanation for the varied performance of China's regions. Sachs in this context notes that the landlocked countries of Eastern Europe are well connected with Western Europe by good roads and rail networks, whereas the landlocked countries of the Central Asia are 'very far away from advanced-country markets', and lack good road and rail connections (1997a:10–11), which may explain some aspects of divergent economic performance.

All the countries of Central Asia are landlocked and Central Asia is an extremely long way not just from Western Europe but any of the world's major trading centres. The Caspian Sea–Volga–Don system is the only long navigable waterway in the region, but this route encounters similar problems to the land-based transport systems—transhipments between the Caspian and the Volga and transport through Russia and Ukraine, with all the official and unofficial impositions that implies. This suggests that the Central Asian republics are at something of a geographic disadvantage compared with the European transition economies. Transport costs from Central Asia are high, so the goods exported from the region have to minimise transport and be high value: for example, oil, natural gas, gold. There is no scope for the kind of import–processing–re-export form of industrialisation that characterised East Asia's boom and which Sachs (1997a) sees emerging in Eastern Europe.

The most likely way of overcoming this isolation is the development of rail links, but progress has been slow. The USSR constructed railheads to the Chinese and Afghan borders, the China line reaching the border at Druzhba in present-day Kazakhstan and the Afghan line reaching the border at Kushka in Turkmenistan and Termez in southern Uzbekistan. In Afghanistan, they were able to build linking roads through to the major urban centres. The Chinese link from Urumqi to Druzhba was only completed in September 1990, having been delayed by the Sino-Soviet dispute until the Gorbachev era. Since the collapse of the Soviet Union, rail linkages have not expanded a great deal. One major success was the opening of a rail link between Iran and Turkmenistan running from Mashhad to Sarakhs in 1997. Iran's rail network itself is underdeveloped, but this link does provide access to an ocean port at Bandar Abbas, currently via Tehran but soon by a more direct route.

Even where rail linkages have been created, the gauge sizes generally differ between FSU and other countries. This means that the services are delayed by the need to transship goods or change bogies. This is the case between, for example, Kazakhstan and China and between Turkmenistan and Iran. Where suitable facilities have been installed, such as on the Chinese side at Druzhba or on the Polish-Belorussian border, the bogies of a whole train can be changed in a few hours; but, where these facilities are not available, goods must be transshipped, which is both time-consuming and costly.

The fact is that the Central Asian economies are severely isolated from world markets, which hinders their ability to export competitively or import cheaply and easily. The ability to overcome the constraints of landlockedness is a crucial factor in the economic performance of the region's economies (Gleason 2000), and no doubt underlies the almost universal interest in the Great Silk Road project among the region's leaders (Akaev 2001; Niyazov 2001).⁴³

Unfortunately, policymakers in the region have done little actual work to address this critical constraint. Repressive policies hindering the movement of goods and people, combined with reportedly pervasive corruption among border officials, have made exporting through the region extremely difficult (see Green 2001). Molnar and Ojala (2003:9), for example, claim '[u]nofficial payments made by truck drivers between Kyrgyzstan and Siberia amount to US\$1,500 on average'. This is obviously in addition to the official fees, duties, and so forth, as well as unnecessary bureaucratic time-wasting.⁴⁴

Economic cooperation agreements and proposals for free trade areas have foundered as politicians pursue domestic interests. If the region has any hope of reducing its isolation from world markets, it must work to reduce the barriers to land transport. This means reducing official customs requirements and inspections and the capacity of customs officials to delay shipments; it also means eliminating the unofficial costs of transport, increasing the security of shipments, and ensuring the infrastructure is in place to make competitive exporting feasible. Again, however, the Central Asian republics are forced to rely first on one another to act positively, but also on their bigger, more powerful, neighbours to act similarly.

Transport of oil and natural gas presents similar difficulties. Transport pipelines in the Soviet era ran from the region to Russia and the other European republics. Oil and natural gas production in the region was intended to fill all-Union needs, and exports to neighbours in the region were not a high priority. As a consequence, Russia has enjoyed a near monopoly on transporting oil and natural gas out of Central Asia. There are two problems with this for Central Asia: Russia can dictate terms to Central Asian exporters, and the most immediate export destinations are countries that have at times proved reluctant or unable to pay for their imports (for example, Georgia, Armenia, Ukraine). The urgency of developing alternative transport routes out of the region is obvious. A number of possible routes have been mooted, but economic sense seems to be inversely related to strategic palatability to the potential financiers. The most economically feasible routes would appear to run to a deep-water port in Iran, and possibly through China to supply East Asia, but neither option is palatable to US policymakers. Nonetheless, Iran has established a limited trade in natural gas with Turkmenistan, and China signed an agreement with Kazakhstan to build a pipeline linking the Caspian area to China, the competition from which has provided a fillip to Kazakhstan's oil exports (*Washington Times*, 19 May 2004).

US focus has been on developing the massive Baku–Ceyhan pipeline, which would provide access to the Mediterranean but still leaves the problem of delivering the oil from Central Asia to Baku. Suggestions of developing a pipeline route through Afghanistan have also revived since the fall of the Taliban. This line is projected to run from Turkmenistan's Davlatabad gas fields through Afghanistan to the Pakistani port of Gwadar (*BBC News*, 30 May 2002; Smirnov 2003), but it is not clear whether Afghanistan and the border regions of Pakistan are secure enough to make this viable. Nor is it clear that the Pakistani and Indian markets, which would be a major component of the projected revenue stream, really warrant the investment (Smirnov 2003).

Central Asia is further constrained by economic geography. Compared to their neighbours in East and South Asia, the Central Asian economies have relatively very high labour costs. This means that the development path followed initially in East Asia, and now in Eastern Europe, whereby a country can position itself as a cheaper alternative to production in nearby industrialised economies, is not available. Contrast this with the situation in Vietnam or the Eastern European countries. In both cases, the labour costs are sufficiently low in comparison with nearby industrialised competitors that it becomes attractive for firms to relocate production to low labour-cost centres and then export their goods back to high-income countries.

On a related note, there is the issue of trade complementarities. Of the Central Asian economies' major exports—oil, gas, and cotton—all are produced to a serious extent by neighbouring economies. Both gas and oil find natural competitor economies quite close at hand. Russia is the world's largest producer and exporter of natural gas, and Iran and Saudi Arabia are among the top ten producers. Similarly, Saudi Arabia, Russia, Iran and China all figure among the world's largest producers of crude oil. There are more grounds for optimism in respect of oil exports, given that the world's largest importers of crude oil include Japan, Korea, China and India, but it remains to be seen whether Central Asian producers can overcome the cost advantages held by producers in other regions (International Energy Agency 2002).

Cotton, one of the more successful exports from Central Asia since the collapse of the Soviet Union, also faces some problems. Russia, Turkey and a number of East Asian countries are among the world's largest importers of cotton, but Central Asian cotton exporters face a certain amount of competition from the substantial cotton exporting nations of Australia, Greece, Pakistan, Egypt, China and even Syria. Whether Central Asian cotton production can remain competitive in the face of exports from these nations is also not clear (*Australian Cottongrower* 2000).

The Central Asian energy producers are clearly going to find it difficult to find natural trading partners within the region, and production for export to more distant customers is made still more tenuous by the fact that the products actually have to be transported through competitor countries (see above).

1.8.3 Resource abundance and rentier states

Three of the Central Asian republics, Turkmenistan, Kazakhstan and Uzbekistan, have substantial holdings of energy reserves—natural gas and oil (and to a lesser extent, coal). Kyrgyzstan and Uzbekistan are also extremely dependent on gold exports. This natural endowment is widely seen as a positive aspect of their post-Soviet economic situation, particularly by the post-Soviet leaders.⁴⁵ It is not clear, however, that such substantial reserves do indeed have a positive influence on economic and political outcomes. The economic debate on the problems experienced by resource-rich states, and their causes, is now so extensive that a truly comprehensive summary is probably beyond the scope of a full PhD thesis. Ross (1999) provides a mercifully compendious introduction to the issue;⁴⁶ Auty (1997, 1998, 2001, 2003), Jones Luong and Weinthal (2001), and Tsalik (2003) provide useful discussions with particular reference to Central Asia; and Esanov et al. (2001) discusses the issue with respect to transition economies more generally. A highly simplified one-line summary of the debate would posit that natural resources represent an easily expropriated form of wealth, and this can lead to imbalance in a country's economic structure and/or distort policymaking.

The Central Asian economies are highly dependent on mineral wealth, and this distinguishes them in an economic sense from most other CIS countries. It also means that these countries face economic and political pressures beyond those in Eastern Europe—a major challenge for the Central Asian republics will be ensuring that income flows from natural resource exploitation do not distort their economies or political systems.

1.8.4 Geopolitical dimensions

A further geographical factor seems to be at work. Gallup and Sachs, for example, note that geographical location may have an influence on the types of policies chosen. They argue that ‘good policy and good geography may have a tendency to go together’ (1999:22). Or, consider Lindauer and Pritchett’s observation that ‘[l]iving near thriving neighbours with sound institutions creates an opportunity to borrow or even lock in good policies that is not available to others’ (2002:27). This is unfortunate because it is hard to identify a single properly democratic country near Central Asia.

The Central Asian economies are distinguished from both the Eastern European and East Asian counterparts by the amount and nature of foreign investment. Foreign direct investment is considered to be one way of overcoming the shortfall in domestic sources of finance that has characterised transition and developing economies. Unlike the East Asian and Eastern European economies, the Central Asian economies are a long way from any obvious sources of investment finance. Moreover, the funds they do receive are targeted at different kinds of investment than is the case in either East Asia or Eastern Europe. Investment in these regions has typically been directed towards opening up new markets or taking advantage of low labour costs in the host country, but investment in Central Asia is typically directed towards natural resources extraction (Campos and Kinoshita 2003).⁴⁷ The impacts of this difference should be obvious: FDI based on markets or lower labour costs in the host country is more likely to lead to modernisation and a diversification of economic activity; FDI in natural resource extraction is more likely to reinforce the existing reliance on a few select products. Shiells (2003) notes that FDI flows into Kazakhstan and Turkmenistan were overwhelmingly associated with energy sector developments, and those into Kyrgyzstan and Tajikistan were almost completely associated with a single gold mining project in each country. FDI inflows to Uzbekistan were minimal given the republic’s economic potential—between 1989 and 2001, Uzbekistan received US\$30 per capita cumulative. Only Tajikistan received less at US\$24. By contrast, Kyrgyzstan received US\$85, Turkmenistan US\$191, and Kazakhstan US\$765 per capita (Table 1.10; also EBRD 2003).

Table 1.10 Net foreign direct investment, Central Asian republics, 1992–2002 (US\$ million)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Kazakhstan	100	1271	660	964	1137	1320	1143	1584	1278	2796	2138
Kyrgyzstan	0.0	10	38	96	47	83	87	38	–7	–1	16
Tajikistan	9	9	12	10	18	18	25	21	24	9	36
Turkmenistan	n.a	79	103	233	108	108	62	125	126	170	100
Uzbekistan	9	48	73	–24	90	167	140	121	75	83	65

Source: Asian Development Bank, 2003. *Key Indicators 2003: education for global participation*, Asian Development, Manila. European Bank for Reconstruction and Development, 2003. *EBRD Transition Report 2003*, European Bank for Reconstruction and Development, London.

1.9 CONCLUSION

Central Asia has been in a fairly continuous process of economic change since the Russian invasion began in the late 1700s. Through both the Tsarist and Soviet eras, the region became increasingly specialised in the production of raw materials for export to the Russian metropolis. This was accompanied, in most of the region, by a corresponding decrease in food self-sufficiency and manufacturing industry. The Soviet era saw some significant attempts to reverse this overall trend—grain production in Kazakhstan increased under the Virgin Lands scheme, and Soviet industrial plants were opened in the region during and after the Second World War—but these did little to alter the dependence of the region on the centre as a market for production and as a source of resources and capital.

Thus, on gaining their independence, the Central Asian economies did not face the same set of circumstances as faced by the CEE or Baltic transition economies. Alongside their dependence on the centre for capital, goods, subsidies and markets, the Central Asian republics differed significantly from those countries in terms of resource endowments, structure, demographic factors, and geographic location. In their population and economic structures, for example, the Central Asian economies resemble more closely the transition economies of East Asia than those of Central and Eastern Europe, but even this comparison is faulty in that regions of the East Asian transitional economies were able to take advantage of the dynamism and growth occurring throughout East and Southeast Asia and also the benefits of trade. Recent advances in economic research also point to the influence of geographic location on economic and political systems and their performance. This would not appear propitious for Central Asia because the region is geographically isolated from world markets and surrounded by polities not noted for democracy or even strong institutional development.

Such factors are important because they explain, to a considerable extent, economic developments in the region since 1991. The withdrawal of the Soviet centre from economic coordination and activity was an exogenous economic shock to the Central Asian republics. The way in which the republics responded to this shock, and were able to make use of the peculiar conditions outlined above, determined their economic performance in the post-Soviet period.

NOTES

¹ Christian (1998), for example, outlines why the steppe environment was conducive to this kind of activity.

² See also Collins (2002) for a discussion of 'clan' politics in Central Asia more generally.

³ While this proposition is acceptable, the coincidence of political instability in many of the societies along the Silk Routes may, however, be grounds for suspicion. Certainly in the oasis towns of inner Asia, the trans-continental trade would have represented an important aspect of their economies. Thus, any disruption to that trade would pose a powerful exogenous shock to economic/social well-being in each town, and this would likely create political instability.

⁴ This, together with Rossabi's political stability argument should be considered carefully by contemporary silk-road revivalists. It is not enough to simply establish the infrastructure of a new Silk Road; political and economic security and stability has also to be established along the route. It is not clear that this will be achieved soon. The second point is that there is ample scope for trade within Central Asia and with regional neighbours to the north and south—again, factors have worked against this being realised.

⁵ See also Adshead (1993).

⁶ For a full description of the process, see Soucek (2000). It is quite difficult to establish a precise starting point for the Russian conquest of the region. Roy (2000), for example, takes it as the conquest of Kazan and Astrakhan in 1552 and 1556 respectively.

⁷ Laying aside, of course, the Soviet misadventure in Afghanistan in 1979–89, on which, see Maley (2003).

- ⁸ Aminov and Babakhodzhaev (1966:33), for example, point to disruptions to world cotton markets owing to the American Civil war as prompting more vigorous Russian colonisation of Central Asia in the 1860s. Pierce (1960) also suggests that Russia was already searching for new sources of cotton after suffering interruptions to its cotton imports during the Crimean War.
- ⁹ The Great Game—as the geopolitical contest between the Russian and British empires in South and Central Asia in the nineteenth and early twentieth centuries are known—has generated wide interest and a considerable popular literature. See, for example, Hopkirk (1991, 1995) and Meyer and Brysac (1999). More academic sources include Gillard (1977) and Edwardes (1975).
- ¹⁰ This, inevitably, was a source of conflict in the steppe areas of Central Asia: as d'Encausse (1994:161) notes, 'conflict between Russian settlers and local nomads became a daily occurrence on the plain...'. See also Olcott (1987).
- ¹¹ See also Matley (1994a) and Demko (1969).
- ¹² This is considered in more detail below in the discussion of the Virgin Lands scheme.
- ¹³ See Olcott (1987) for the authoritative discussion of this process.
- ¹⁴ It would be wrong, in this light, to see increasing monoculture in Central Asia as specifically a Soviet inspired problem.
- ¹⁵ The development of the railways in this way did not, however, reflect a deliberate economic policy choice. They were designed to serve strategic military rather than economic ends. Matley (1994b), for example, notes that Central Asia's major cotton producing areas did not directly access the rail network until the Trans-Caspian line was extended through Tashkent to the Ferghana Valley (in 1898–99). The first economically effective rail connection came with the opening of the Orenburg–Tashkent line in 1906 (Matley 1994b).
- ¹⁶ Becker (1968) argues that Russian dominance was involved in some industrial growth, but that this was mostly associated with cotton processing and closely attached to the railways.
- ¹⁷ Note, however, that Becker (1968:182) states that 'Bukhara and Khiva never developed the kind of overspecialised, one-crop economy that Fergana had', and that 'Bukhara and Khiva, unlike Fergana, remained self-sufficient in food, and for the most part cotton was raised by small peasants as a supplementary source of income, rather than by specialized producers' (1968:183).
- ¹⁸ Aminov and Babakhodzhaev (1966:49) argue that the industrialisation that took place in Central Asia during the Tsarist era was a consequence of the introduction of capitalism to the region but that this did not reflect a conscious effort at modernisation by the Tsarist rulers (but that is a different question). They also attribute to the introduction of capitalism the opportunity to develop more progressive forms of ownership and societal relations, a higher level of economic development, a more rapid collapse of patriarchal-feudal relations, and increased levels of non-subsistence farming (including the specialisation in cotton). This seems somewhat optimistic: it is not clear that patriarchal dominance has been sufficiently tempered to this day, it is probable that feudal relations were (and are) maintained in altered form throughout the Tsarist, Soviet and even post-Soviet eras; and the growth of cotton specialisation and the break-up of nomadic herding practices are now seen as environmentally disastrous. The general approach of Soviet-era writers was to highlight the importance of Tsarist colonisation in taking the region to a higher, but of course not the ultimate, stage of economic organisation by eliminating feudal-patriarchal relations, by connecting Central Asia to world markets, and also by curtailing the squabbles and warfare between neighbouring khanates (see Khalfin 1965).
- ¹⁹ For example, Nove (1989) provides the classic account of the development of the Soviet system from 1917 through to the mid 1980s; Nove (1977) provides a detailed critical overview of the operation of the Soviet economic system; Desai (1987) considers the problems of the late Soviet economy; and IMF et al. (1991) provide a comprehensive overview of the Soviet economy immediately prior to the collapse of the Soviet Union.
- ²⁰ In the *kolkhozy*, land was worked collectively, each member's income was a share of the final produce. The *sovkhozy* were run more like state factories in that their employees were paid a set wage (Davies 1998). In theory, the *kolkhozy* were more autonomous from the state, electing their own management and financing their activities out of revenue earned, whereas the *sovkhozy* were directed by the state organs and relied on the state to pay wages, fund investments and appoint managers. In practice, however, *kolkhoz* managers were no more autonomous than their *sovkhoz* counterparts. See Nove (1977) for a more complete, and wryly critical, discussion of the Soviet agricultural production system.
- ²¹ In 1992, the wheat yield in the Asian areas of the former Soviet Union was 13955 hectograms (100 grams) per hectare, compared with 21697 in the European areas. More specifically, the Ukraine in that year yielded 30926 hectograms of wheat per hectare, compared with 13324 in Kazakhstan, 27335 in Kyrgyzstan, 9286 in Tajikistan, 19137 in Turkmenistan and 15375 in Uzbekistan. That said, these figures compare fairly favourably with Australia's wheat production at the time (FAOSTAT, 2004 data).
- ²² McCauley (1976) and Durgin (1962), for example, describe massive quantities of grain being left to rot in the fields owing to the lack of appropriate collection and storage facilities.
- ²³ This seems to have been driven partly by an almost wilful lack of attention among policymakers to the prevention of erosion (see McCauley 1976). Peterson (1993:99) claims that 'an average of 30–50 percent of the humus was lost' from the soil across the regions in the Virgin Lands program.
- ²⁴ An early and still fairly positive assessment of the Karakum Canal is provided by Kornilov and Timoshkina (1975). For, a more recent discussion of the operation of the canal, and its problems, see Hannan and O'Hara (1998).
- ²⁵ For example, Peterson (1993); Massey Stewart (1992). Until September 2001, the Aral Sea problem garnered by far the widest media and public attention towards Central Asia in the West. In my experience, it was probably the only association most Westerners could make with the region at that time. This dominance has led to the black observation that if every international consultant sent to study the Aral Sea just took along a bucket of water, there would be no problem. Back issues of *Soviet Geography* (later *Post-Soviet Geography and Economics* and *Eurasian Geography and Economics*) chart the development of the issue from an idle scientific/engineering problem into a full-scale disaster (some examples include Chernenko 1968; Kuznetsov 1976; Borovskiy 1980; Rafikov 1983; monograph studies of the region's problems include Micklin and Williams 1996; Kobori and Glantz 1998).
- Chernenko (1968:491) provides a salutary example of the blithe arrogance of the scientists and policymakers who chose to manufacture this crisis. Predicting that the sea level would stabilise at 12 metres below the then level, he noted that this would 'reduce sea area from its present 64,100km² to 38,800km²...' adding that '[s]uch a body of water may, of course, no longer deserve the generic name of "sea", but at least it will continue to exist, to delight people as before, to serve as a waterway and as a source of fish, and to prevent the great danger of regional salinization'.
- ²⁶ Pomfret (2002a:176), for example, notes that decisions regarding the best way to increase production and yields were decided on political grounds, whereas '[i]n a market economy there would have been technical competition and, in most cases, a convergence on the technology revealed to be superior'.
- ²⁷ See Pomfret (2002a) for a useful summary of Soviet cotton production statistics.

- ²⁸ Black et al. (1991:239) argue that much of this was only temporarily evacuated.
- ²⁹ One is tempted to ponder what would have occurred under different economic and political structures. The Central Asian economies were characterised by high population growth and consequently by abundant labour and relatively low wage rates compared to the rest of the Union. They would appear to have had a comparative advantage compared over the rest of the Union in agriculture, some extractive industries, and in labour-intensive, low-skill industry. This, however, would have been offset by the high transport costs, making the overall impact on the economic structure difficult to discern.
- ³⁰ Contemporary Western economists have, perhaps understandably, tended to denigrate the achievements of the Soviet era, preferring to concentrate on the (admittedly often terrible) failures. They have also tended to belittle the attitudes of those who express regret for the passing of the Soviet era as the mutterings of reactionaries, unreconstructed communists or contrarians. To do this, however, is to ignore the fact that for the majority of people in Central Asia the Soviet era was better than both the era that preceded it and, sadly, that which has followed it.
- ³¹ As Field (2002) notes, however, emphasis in the Soviet health care system was on quantitative, rather than qualitative, indices. Thus, while the number of hospital beds and health personnel increased throughout the period, less attention was paid to improving facilities or techniques. The existence of separate health care facilities specifically for various élite groups also subverted the principle of equality of access.
- ³² The increase in literacy was especially pronounced among women because provision of education to women had not been given a particularly high priority prior to the revolution.
- ³³ Jukes' finding that female enrolments in tertiary-level education far outstripped those of Iran, Afghanistan, Turkey and India (and indeed was similar to that in Australia at the time)—despite near universal female illiteracy at the beginning of Soviet rule—is indicative of the progress made in the region (Jukes 1973:43).
- ³⁴ As Matley (1994a:284) notes, in the early years Soviet policy was 'simply a projection of pre-1917 Russian policy with its emphasis on cotton growing and upon withdrawal from raising grain and other foodstuffs'.
- ³⁵ For example, Central Asian production of cotton fabric represented around 5 per cent of the Soviet Union total in 1960.
- ³⁶ The lack of trade with Central Asia's immediate neighbours was briefly discussed in the 1957 UNECE report (1957).
- ³⁷ This was somewhat altered in Kazakhstan, but not in the other Central Asian republics (*The Economist*, 16 February 1991).
- ³⁸ This is apparently true even of Akaev (*Independent*, 24 August 1991).
- ³⁹ Nazarbaev was scheduled to take part in the discussions, but the agreement among the three republics was concluded before he arrived (*Reuters*, 8 December 1991).
- ⁴⁰ Nazarbaev's position here was probably influenced by Gorbachev's promise to appoint him Prime Minister within a renewed Soviet Union (*Reuters*, 8 December 1991; 9 December 1991; 10 December 1991).
- ⁴¹ Esanov et al. (2001:13) raise this as a pressing factor in the transition, stating that '[r]uling elites in the CIS countries were faced with a serious challenge: how to replace implicit and explicit transfers to maintain their support base'.
- ⁴² One of the curious factors that Orlowski (1995) points out is that the 'richer' republics—Kazakhstan and Uzbekistan—paradoxically received proportionally more than the poorer republics.
- ⁴³ Tajikistan probably represents the worst case in that it has very limited land transport connections with the rest of the world. Its current shipping routes pass through Afghanistan, Kyrgyzstan and Uzbekistan. The Afghan route was obviously not viable during the Afghan wars, but the Kyrgyz and Uzbek routes were also frequently closed when officials in those countries became unsettled by radical groups operating from Tajik border regions and by the civil war more generally. Thus, Tajik trade was, and remains, highly contingent on officials in neighbouring countries allowing shipments across their borders (see Gleason 2000).
- ⁴⁴ Molnar and Ojala (2003), for example, note that whereas trains typically spend 30–40 minutes at borders between EU countries, they can be detained for days at CIS borders.
- ⁴⁵ For example, Kazakhstan's Prime Minister is reported to have said, 'A radical restructuring of the economy will take decades, so the country should now rely on its extractive industries...Because the accelerated expansion of extractive industries would improve conditions for other sectors, using them as a locomotive would be strategically correct' (*Interfax*, 17 October 2003).
- ⁴⁶ See also Ross (2001) for a statistically-informed argument in favour of the thesis that resource wealth impedes democratisation.
- ⁴⁷ In the more technical description, investment in Eastern Europe is 'efficiency-seeking' and/or 'market-seeking'; investment in Central Asia is 'resource-seeking'. See Shiells (2003) and Campos and Kinoshita (2003). Another important factor in this regard is that 'resource-seeking' investment seems to occur in spite of the usual barriers to investment—corruption, bureaucratic heavy-handedness, etc.—whereas market-seeking and efficiency-seeking investment seems to rely on these barriers being removed. It would be interesting to speculate on the influence this difference could have on host governments.

2 THEORIES OF TRANSITION

This chapter will discuss theories of transition, starting from the problematic aspects of defining exactly what the term transition describes. The chapter leads on from Chapter 1 by discussing reasons underpinning the impetus for reform in the Soviet Union and Eastern Europe in the late 1980s and early 1990s. It then discusses the standard theoretical reform packages advanced at the beginning of the transition period, highlighting the debates and differences in approach that characterised that period. It will conclude by discussing two of the most divisive aspects of the transition era—the speed of transition and the role of privatisation in transition.

2.1 DEFINING TRANSITION

2.1.1 Economic reform

Although most people recognise the existence of a group of economies known as the transition economies, it is actually rather difficult to define what exactly transition is. Is it defined by sweeping economic reform? This is a dubious proposition. Countries such as India, the individual nations of South America, even Western economies such as the United Kingdom, New Zealand, and Australia, have undertaken widespread economic reforms that have radically altered the economic processes within them, but these countries would never be regarded as ‘in transition’. On the other hand, Turkmenistan and Belarus are considered to be undergoing transition, even though they have introduced very little in the way of economic reform and strong elements of government control are still in place.

2.1.2 Political reform

Can it be said that transition involves a move to increased democracy? After all, these countries were once part of the Soviet Union, notorious in the West for its totalitarianism and lack of democracy. Again, however, the idea that transition necessarily involves democratisation is sadly untenable. While it is arguable that the transition in Central and Eastern Europe has generally been associated with a shift towards more democratic regimes, the argument founders the further east one travels. Most of the current regimes in the Central Asian republics mouth the words of democracy, but are less interested in actually implementing it (see Chapter 5). If democracy had a role in transition, it is unlikely that any of the Central Asian republics, particularly Turkmenistan, could be considered as being in transition.

2.1.3 The problem of definitions

But if we must conclude that neither extensive economic reform nor extensive political reform are integral to transition, we are rightly forced to ask: what is transition?

There is no concrete meaning to the term; it is ambiguous and means different things to different people. Economists, particularly those associated with the multinational institutions, tend to emphasise the importance of economic restructuring. Fischer and Gelb (1991:91) outlined what could be seen as the Western economic understanding of transition, arguing for a 'move from a more or less planned socialist system to a private market economy, one in which ownership predominates'. The World Bank (1996) report, *From Plan to Market*, optimistically identifies transition as

...not simply the adoption or modification of a few policies or programs but a passage from one mode of economic organization to a thoroughly different one (World Bank 1996:6).

The approach seems to have derived from economic reform experiences in South America and the currently unfashionable Washington Consensus.¹ At the same time, there seems to have been a broad assumption among economists that the transition countries would democratise.

The other side of transition theory derives from theorists of political change and democratisation. This line of thought has typically sought to place democratisation in Eastern Europe and the Former Soviet Union in the context of democratisation movements throughout the world (Linz and Stepan 1996a; Schmitter and Karl 1994). As with the economic aspects of transition, however, not everyone accepted that South America provided a sensible model, or even comparator, for post-socialist democratic transition (for example, Meiklejohn Terry 1993; Bunce 1995). Political theorists have differed from the economists in being far more reticent to extrapolate experiences elsewhere to provide a model for transition countries and instead seeing the transition as a way of refining their theories.² The advocacy role has been left to multinational organisations—such as Amnesty International, Human Rights Watch, Reporters without Borders—and think-tanks such as Freedom House.

Many observers implicitly pictured some sort of end-point or goal, with a Western market economy or a Western-style democracy or both the assumed result of the reform process.³ This turned out to be a reasonable assumption in Eastern Europe and the Baltics, but less tenable in the other transition nations.⁴ The assumption is typified by UNICEF's review publication *A Decade of Transition*, which elaborates on

the twin goals that have shaped the region since 1989: to create democratic societies in which human rights flourish...and to move economic organization from a planned to a market system (UNICEF 2001:ix).

The problematic aspect is that, outside Eastern Europe and the Baltics, democratisation and market economics are in play only where they (a) bolster the sustainability of essentially undemocratic regimes or (b) exist beyond the repressive reach of the state. The problem is identified by Carothers (2002:6), who notes: 'Most countries that policy makers and aid practitioners persist in calling "transitional" are not in transition to democracy, and of the democratic transitions that are under way, more than a few are not following the model'.

So, in defining what a transition country is, we are reduced to noting merely that they are the residual countries of the former Soviet bloc and nothing more (Allsop and Kierzkowski 1997). There is no other process, condition or goal that defines them. Perhaps we could follow and extend Ellman's (1994) approach and argue that transition involved a period of political and economic instability in nominally socialist countries, which opened up the possibility of substantial political and economic change but did not always result in that change. Alternatively, we could argue that transition in fact does involve both political and economic change; and thus force ourselves to conclude that most of Central Asia is not and has not been in transition. In this thesis, I have adopted the first of these approaches, using 'transition' to refer broadly to countries of the former Soviet bloc and to the period of economic and political stability starting from 1989 in Eastern Europe and 1991 in the former Soviet Union.

2.2 WHY TRANSITION?

2.2.1 Economic stagnation

The push for economic reform did not simply appear. It reflected ongoing stagnation and economic distress in the countries of Central and Eastern Europe and also the Soviet Union, and also dissatisfaction with the political situation in many of these countries.

During the 1980s, growth of Russian gross national product was moribund, productivity growth in terms of both capital and labour was minimal, the opportunities for extensive rather than intensive growth had been largely exhausted,⁵ the diversion of resources away from consumer goods to bolster heavy-industry and armaments manufacturing meant that rationing had to be imposed on consumers, and government finances were in a perilous state (Nove 1989; Ofer 1987; Easterly and Fischer 1994, 1995; Desai 1987). Why did the growth model that had served the Soviet Union reasonably well since the 1930s, most notably in mobilising resources in the second world war but also with some successes in the 1960s, go awry?

This taps into the long debate on what exactly caused growth to slow down in the Soviet Union, particularly during the 1980s. Writing in the 1980s, authors such as Desai (1987) and Ofer (1987, 1990) argued that the slowdown was caused by diminishing returns to capital accumulation and a slowdown in technical change arising from the inefficiencies of the Soviet economic system. Ofer argues that, with the extremely slow growth in the labour force, economic growth under the extensive growth model, in which growth is achieved by merely adding more of the factors of production into the production process, could only be derived from additions of capital. But additions of capital while labour is held constant would yield rapidly diminishing returns (Ofer 1987; see also Nove 1989). This was compounded by the limited indigenous technical change in the Soviet Union: at the enterprise or farm level, managers had no incentive to introduce new technologies and production processes because the consequences of getting things wrong, or even a temporary slowdown as new technologies were introduced, were too high (Desai 1987). Ofer proffered the following explanation:

First, extensive growth is by nature exhaustible, as manifested in the unavoidable decline in the growth rates of inputs. Second, technological change and improved efficiency failed to replace

input growth; in fact the contribution of technology declined over the years, reflecting the increased difficulty of borrowing Western technologies cheaply. Finally, the decline in growth was accelerated by the strategy of haste (Ofer 1987:1814).

Writing prior to the East Asian financial collapse, Easterly and Fischer (1994, 1995) countered this by arguing that the extensive growth model was not the important factor—after all, many countries, such as Japan and the ‘Asian Tigers’, were successfully following exactly the same model of growth and had not run into the same problems. They argued that the growth slowdown was caused by a ‘low elasticity of substitution between capital and labor’ causing ‘especially acute diminishing returns to capital compared with the case in market economies’ (Easterly and Fischer 1995:341). They were less clear about the reasons for the low substitutability of capital and labour in the Soviet Union.

Nove (1989) also provided the simple explanation that the complexity of organising the planned economy overwhelmed the planners. Information was not complete enough to make coherent and consistent judgments; plans became imbalanced, often making it difficult for producers to get the inputs they needed for production. Desai (1987) raised the issue of these bottlenecks and shortages as a factor in the decline, but in reality they are both a cause and consequence of economic decline. They reflect the inability of the economy to produce enough of the right kinds of goods, and this reflects the deeper lack of information, signalling and feedback within the system, combined with the inflexible attitudes of producers towards changes in production, prices or production processes.

2.2.2 The shift from economic stagnation to political unrest

These approaches may explain why the growth slowdown occurred, but they do not explain why or how this was transformed into a major regime shift in the Soviet Union. The link between economic hardship and political regime shift is not always obvious. Most countries, obviously, do not suffer a revolution whenever their economies are flat.

In considering the Soviet economy, many economists highlighted the worsening shortages and the need for queuing and rationing.⁶ And, indeed, the economic stagnation manifested itself most destructively in the increased rationing of even basic consumption goods. This, however, really does not suffice as an explanation: certainly, if economic stagnation is to break out into widespread popular unrest, then shortages of basic consumer goods—bread, meat, milk and so forth—are the most likely channel, but rationing and queuing had long been a feature of the Soviet economy. The post-war housing shortage, for example, was a limitation to a basic human need, but did not result in revolution or regime change. What then was special about the late 1980s?

In an authoritarian regime a special set of conditions is necessary for economic disorder to break out into political change. The élite in an authoritarian regime has at all times to provide the majority of the people incentives not to push for political change. This has two sides to it: there is the negative incentive of repression (such as the threat of punishment, torture or death, economic harm and social marginalisation) and the positive incentive of current or future economic, political and social well-being (such as the achievement or promise of rapid economic growth, improved living standards and political stability, among other things).

The negative incentive is obvious; the government, through political violence or oppression, can make the consequences of dissent so grave as to render dissent unattractive to most people. As long as the regime is powerful and committed to maintaining authoritarian rule, it will be in a position to ensure that the costs of dissent (such as, being imprisoned, tortured, ostracised) are too high for most people.⁷

On the other hand, the government can provide positive incentives to limit the urge to dissent. If most people feel that they are better off maintaining the incumbent regime for the benefits it provides now, or is expected to provide in the future, they will not push for a major regime shift. As O'Donnell et al. (1986:21) suggested, '...where the objective performance and subjective confidence of the regime is high, a transition is not likely to occur'. In a sense, under such circumstances the majority are unwilling to join the efforts of those agitating for reform because they feel that the expected political, economic and social benefits of retaining the incumbent situation are higher than the expected gains from moving to an uncertain new system.

So, even if economic conditions are terrible, revolution or regime change is not necessarily just around the corner. This is just part of the necessary conditions for economic stagnation to be transferred into economic unrest. What needs to happen is: (a) the repressive power of the state must break down,⁸ and (b) the promise of future and current political, social and economic well-being needs to be absent or at least discredited. Once these two conditions are in play, there is scope for widespread and open public action.

Now to our question: what was special about the late 1980s? The answer lies in the special factors mentioned above. In the immediate post-war era, the negative and positive incentives worked together to inhibit the urge to dissent. Political repression was still very strong, and economic conditions for most people were clearly improving after the severe privations of the war era. The Soviet Union at this time was moving towards its 'golden era', with increasing GDP, improved health and social conditions reflected in wider access to better housing, improved life expectancy, and so forth (Nove 1989). The leadership could point to the very real progress that had been made in terms of improving economic and social conditions and could credibly claim that this would continue. While economic conditions were dire, the future looked better and the incumbent regime would have seemed the group most likely to be able to guarantee social and political stability.

In the late 1980s, the positive and negative incentives were once again working together but in the other direction. Economic conditions were worsening—and had been for some time—and the long-run inability to control this decline brought into question the Soviet regime's credibility. There was no obvious acceptable solution to the problem, which meant that not only current economic conditions were dim, but so also were perceptions of how economic conditions would be in the future. At the same time, the regime's willingness to repress dissent had weakened. As Noren and Kurtzweg (1993:26) put it:

To explain the popular discontent that flourished in the 1980s...one also has to take into account the much greater freedom of expression in printed and spoken dialogue and even in demonstrations and strikes.

The late 1980s were different in that the negative and positive incentives meant to limit dissent were suddenly lost. In Russia at least, *perestroika* served to worsen the economic situation, while *glasnost* worked to open up the political space for critical voices. Yeltsin's emergence as a legitimate and popular alternate centre of power from within the Communist Party was made possible by social collapse, but also by the widening space for criticism.⁹

As discussed in Chapter 1, Central Asia was passive amidst the collapse of the Soviet Union. There is a reason for this. The Central Asian republics arguably achieved far higher levels of income and social well-being than would have been likely had they not been part of the Soviet Union. The region saw riots and protests in the *perestroika* era, but none of these manifested themselves as overtly revolutionary in the sense of aiming for the destruction of the Soviet Union. Even though there was considerable privation and extensive shortages in the region, with housing an especially provocative issue, the positive economic incentive remained far stronger in Central Asia than elsewhere in the Union. The costs of collapse were apparent and too large, and the benefits (social, psychological and economic) of breaking away from the Soviet Union too nebulous for large-scale change to attract widespread support. At the same time, the period of political instability (or democratic opening) was far shorter in Kazakhstan and Kyrgyzstan, and virtually non-existent in Uzbekistan and Turkmenistan, limiting the opportunity for people to push for change.

2.3 COMPONENTS OF TRANSITION

Perceptions of what economic transition involves vary. The basic formula presented by the World Bank (1996) posits 'Liberalisation, stabilisation, and growth' as the necessary general ingredients for transition. I take this to mean converting economic processes to systems more extensively based on market forces, achieving price stability, and regaining economic growth.

Liberalisation, it is stated, 'involves freeing up prices, trade, and entry from state controls...' and '...decentralizes production and trading decisions to enterprises and households and directly addresses the two fundamental weaknesses of central planning: poor incentives and poor information' (World Bank 1996:22).

This is fairly abstract and gives no sense of what exactly is required. Fischer and Gelb's very early article 'The process of socialist economic transformation' set what can be considered the blueprint, if there is one, for most of the reform programs (Fischer and Gelb 1991; see also Gelb and Gray 1991). They define the critical elements of reform as:

- 1 Macroeconomic stabilisation. This particularly refers to price stabilisation, through elimination of monetary overhang and restraining of budget deficits, and attainment of external balance in terms of exchange rate stability, restraint of current account deficits, and also dealing with external debt problems (Gelb and Gray 1991).
- 2 Price and market reform. This includes the elimination of state controls over the prices, quantities, and types of goods sold. Further elements of this include

opening up markets to foreign goods and the reduction of price subsidies on politically strategic goods. Market liberalisation is not confined to goods markets; labour and capital markets are also to be opened up.

- 3 Enterprise reform. Fischer and Gelb (1991) see two phases to enterprise reform—restructuring and privatisation. This includes imposition of hard budget constraints, reform of management, and finally change of management and/or ownership.
- 4 Institutional change. Institutions are formal and informal rules and constraints on the way people interact and transact within an economy (see discussion in section 2.3.5). With the role of state in economic activity suddenly and drastically curtailed, replacement institutions to facilitate economic activity have to be induced or introduced.

This basic structure was widely accepted, and similar assessments are presented by, for example, the International Monetary Fund (2000a), the European Bank for Reconstruction and Development (1995), Pomfret (2002b), Parker et al. (1994), Balcerowicz (1994a) and Roland (2000), among countless others. This is basically a summary of what an idealised market economy looks like and a set of fairly loose directions for finding it. It is reasonably safe to say that most non-Marxist economists shared this view of what needed to be done at the beginning of transition. Few argued, for example, that macroeconomic stabilisation was unnecessary. Very few even argued that most prices and markets should not be liberalised.¹⁰ Where economists divided was on the relative importance of these various aspects and the speed with which they should be implemented (this will be discussed in section 2.4).

2.3.1 Macroeconomic stabilisation

The transition economies entered the period with severe macroeconomic imbalances, which were manifested most overtly in severe inflation and output collapse. Because these two factors came to dominate perceptions of success and failure in the transition economies, they are dealt with separately in detail in Chapter 3. At the same time, however, macroeconomic stabilisation was intimately tied to the structural reforms—macroeconomic stabilisation was a necessary condition for the structural reforms to be effective, but the structural reforms would also contribute to the macroeconomic stabilisation.

Inflation. Achieving price stability quickly came to dominate the attentions of both Western and local economists and policymakers. This was driven by the widely-accepted notion that high inflation, or price instability, was a major factor in preventing the resumption of growth in Eastern Europe and the Former Soviet Union (World Bank 1996),¹¹ but also by the very dire nature of the inflation crises that seemed to have taken hold in the transition economies during the early 1990s. There was strikingly little debate about the importance of dealing with inflation—most economists and policymakers accepted that inflation was a problem, and most policymakers in the region made efforts to deal with it. What did generate considerable discussion, however, was the causes of the inflation. Chapter 3 will discuss these arguments in detail, and Chapter 6 will argue that the inflation in Central Asia, and its eventual control, were driven predominantly

but not exclusively by monetisation of budget deficits. Interestingly, the inflation crises, regardless of the strategies taken to address them, seemed to run their course rapidly, with hyperinflation disappearing in all countries within 3–4 years.

Output. The output collapse in the transition countries was more striking than the inflationary surge, largely because it was not as widely anticipated. In the most fortunate countries, output dropped to about 80 per cent of its pre-transition level before recovering; the worst cases saw output collapse to 30–40 per cent of its pre-transition level. Chapter 3 discusses the various theories advanced to try to explain why this happened.

While restoring balanced growth of output was a major concern during the transition, the way of achieving this was, and is, a source of considerable conflict. Western economists and the multinational financial institutions have tended to argue that fast, radical reform was the key to output recovery. Considerable econometric work has been devoted to finding correlations between ‘reforms’ and economic growth, usually using large-scale cross-regional data from all the transition countries (see section 3.2.5). Chapter 6 will argue that reform is important, but among the Central Asian republics country-specific factors have far more obviously than economic reform driven output trends.

2.3.2 Price and market reform

What was wrong with prices? Prices in the Soviet economy were set to reflect plan priorities rather than relative scarcities. Market forces of supply and demand had no short-run influence on the official price of any particular good, a situation that pervaded all levels of the economy, from primary producers through industry to the consumer. The prices of some goods, such as energy products, were held artificially low, whereas the prices of other goods were unrealistically high.

Several authors have provided outlines of how industrial input prices were set (see Nove 1977; Kornai 1992; Bornstein 1989). In the industrial sector, prices were used more to enable the measurement and comparison of different, qualitatively non-comparable, physical goods than as a means of economic coordination (Kornai 1992; Nove 1977).¹² The prices set under the planning system reflected a complex set of factors, most of which had economic basis. As Bornstein summarises,

[t]he resulting prices do not reflect relative scarcities or balance supply and demand for different products. Instead the goods are administratively allocated to users by the central supply agencies...Finally, because they do not correspond to relative scarcities, these prices are misleading measures of the relative importance of different goods in enterprise calculations of sales revenue, costs and profit, and in national plans and macroeconomic balances (1989:314).

Using Nove’s (1977) terminology, prices in the industrial sector had an evaluative rather than allocative purpose. They allowed planners to measure and assess enterprise economy—the efficiency with which they used the inputs they received—but they did not determine the inputs enterprises received or reflect the value of their transformation. For example, if both input prices and output prices are arbitrarily set, there is no way to judge whether a particular form of production is economically worthwhile or even adds value.

Consumer prices were similarly set to reflect planning priorities. At base, consumer prices were set according to producer costs plus an arbitrary profit margin, handling

costs and so forth. Prices were supposed to be market clearing, but in practice they were not. Arbitrary judgments were made in determining prices, with some goods massively subsidised and other goods overpriced, which meant that over- and undersupply of particular goods was typical. Nove (1977) noted that goods such as oranges and meat were all but impossible to obtain in state stores, but other goods were impossible to sell. There was no way of effectively signalling which products were valued by consumers, and no power among enterprises to alter their product mix. Only the central planners could solve these problems, but they were working at a massive macroeconomic scale and probably could not be consistently aware of shortages and gluts at the extreme micro-level (see Nove 1989).

Markets and trade. A second problem was the absence of official competitive markets. In the industrial sector, this meant that businesses were largely obliged to obtain inputs from a specified source and sell their output to a particular buyer. The public also faced limited choices in purchasing consumer goods. Private enterprise was largely forbidden until the 1980s (other than small-scale retail and petty trade in some cases), so no new firms could enter the market to fill the gaps in plan output.¹³ Imports and the influx of foreign competition were strictly controlled by the state, so these gaps could not be filled by external sources either.

Soviet production was further distorted by monopoly-based production. Competition in both consumer and input goods markets was specifically avoided, which was particularly damaging because producers could not seek alternative, more competitive, sources of inputs—they were locked into their supply relationships.

Furthermore, the industrial structure was skewed away from production in which the Soviet Union had a natural advantage towards heavy-industry and the military-industrial complex, further reducing the efficiency of input usage. Planners, moreover, prioritised particular sectors at the expense of other sectors. Most notoriously, strong emphasis was placed on the development of heavy industry at the expense of light industry and consumer goods production generally.¹⁴ Thus, at the beginning of the reform process in the Soviet Union

- prices were set arbitrarily and did not reflect scarcity or the costs of production
- competition was repressed and even outlawed
- the industrial sector was severely distorted.

Price and market reforms were intended to reduce and minimise these distortions. Freeing prices would eradicate distortions in consumer markets (especially the pervasive queuing that had emerged as a form of rationing) and facilitate more efficient production by establishing more appropriate factor prices.

Market reforms would extend this by allowing greater competition from imports, foreign firms establishing a presence in Soviet markets, and from nascent domestic private sector firms. Producers would be allowed to source inputs from a range of suppliers, both domestic and foreign, thus enabling them to adopt more efficient production practices. In addition, suppliers would be permitted to sell their products to the highest bidders, rather than the customers stipulated by the planners.

The process of liberalising prices and markets was expected to revive the Soviet economies by improving the quantity, range and quality of goods and services available

to consumers, by increasing the incentives and developing the economic signalling necessary for efficient production, and by diversifying the range of producers and the types of production.

Different approaches to price and market reform. Once again, few economists would argue against the importance of market-based prices in ensuring efficient use of resources and equilibration of supply and demand. The argument, however, lay in whether prices should be liberalised *en masse* or whether some sort of gradual or 'dual track' liberalisation of prices, such as that which had emerged in China, should be adopted.

Those arguing for the gradual, 'dual-track' approach maintained that it was necessary to avoid the shock that would be introduced by a single comprehensive reform. Ideally, under this system, there would be two price systems operating in any particular market, a set of prices at which the state bought and sold certain quantities of particular goods and services, and a market price determined by actual supply and demand for those goods and services in the economy. Over time, the gap between these two prices would be closed, as (a) the two different prices were brought into alignment and (b) goods were removed from the state track. The benefits of this system, it was argued, were that enterprises needed to be given time to adopt more efficient production practices, that a price shock would cause dislocation in markets and would lead to distress among consumers. Supporters of the dual-track system could seemingly point to the positive results of the dual-track system in China as evidence in favour of using this approach.

Those arguing for a comprehensive once-off liberalisation of prices suggested that dual-track pricing systems prevented the goods and services, particularly the factors of production, from being allocated efficiently. They also pointed out the potential for this system to generate corruption. People (usually those with strong political connections) could access goods at the lower state-set price and resell them at the higher market price, thus essentially receiving an undeserved direct transfer from the state. Another argument against the continuation of the dual-track pricing system was that it could give inefficient state-owned enterprises an advantage over start-up, or *de novo*, enterprises in accessing production inputs, thus hampering the emergence of new and more efficient industries.

In practice, no country eliminated all price controls overnight. Poland for example had a series of liberalisations which intensified around 1989–90, and Czechoslovakia initially maintained price controls over at least some goods (Berg and Blanchard 1992; Dyba and Svejnar 1992). In Russia, halting efforts at price adjustments and liberalisation through the late 1980s and into the 1990s were followed by the eventual repeal of most price controls in 1992 (Åslund 1995). As with Poland and Czechoslovakia, however, price controls were maintained over some of the most sensitive goods. Chapter 4 discusses the process of price reform in each of the Central Asian republics in detail.

Other factors involved legalising non-state trade and the emergence of private enterprise in most if not all sectors of the economy. Reform efforts within the Soviet Union through the late 1980s were intended to open up space for new private enterprise but leave the economic system and ownership largely unchanged (IMF et al. 1991). The

results were not particularly good because regulations on private sector activity remained too restrictive and the conditions for such activity were too difficult. After 1991, the emphasis among reform-minded economists turned to *creating* a private sector by privatising Soviet era enterprises, but this had its own problems, as we shall see in section 2.3.3.

Wages and labour. Until the late 1980s, wages and labour markets were tightly managed in accordance with the plan. Wages were set centrally and employment was not determined by actual need or demand for labour. Unlike in market economies, where wage rates loosely reflect a wide range of factors associated with the job, including supply and demand for that skill, perceived skill levels or education required and so forth, wage rates in the USSR were determined centrally according to 'a rather ideological hierarchy of sectors and skills, but with little weight attached to the incentive function of wages' (IMF et al. 1991b:179).

While there was scope for workers to choose their place of work, this was circumscribed by the regulations governing where people could live (IMF et al. 1991b), which severely limited the mobility of labour in practice. Restrictions on private employment were eased through the late 1980s, firstly to allow self-employment in private activities and later to allow groups to engage in private activities and also employ people (IMF et al. 1991b). Liberalisation and indeed stabilisation required that labour markets and wages be freed and decentralised, and also required removal of restrictions on residence.

Foreign trade. Until 1986, foreign trade in the USSR was monopolised by the Ministry of Foreign Trade, operating through a number of Foreign Trade Organisations (FTOs). Reforms in 1986 sought to remove this monopoly by extending trading rights to a wider range of organisations. The liberalisation was further extended in 1989 by reforms that gave individual firms and enterprises the right to import (except finished goods for resale) or export, provided they were registered with the Ministry of Foreign Economic Relations (IMF et al. 1991a).

Prior to 1987, exporters faced a confiscatory foreign exchange regime. This was relaxed with the introduction of complex schemes for foreign exchange retention that allowed exporters to retain a given proportion of their export earnings, whereas previously they had to exchange all export earnings at the official, and highly implausible, exchange rate (IMF et al. 1991a).

While these liberalising reforms were being adopted, a licensing system was introduced for particular exports and imports which set export limits on the amount of particular goods. The aim of this scheme was to ensure domestic supply (IMF et al. 1991a).

Thus, at the time of the collapse of the Soviet Union, foreign trade was still highly constrained by licensing requirements, export and import controls, export taxes, confiscatory official exchange rates and exchange rate regulations, and backwardness at the enterprise level in international trade. The reforms of the post-Soviet period would aim to free up foreign trade completely by abolishing import and export restrictions on all but a handful of key goods, encourage enterprises to engage in foreign trade and react to foreign competition, and liberalise foreign exchange transactions (Gelb and Gray 1991).

2.3.3 Enterprise reform

Enterprise reform had three components: making firms face market-determined prices for inputs and outputs, introducing sustainable budgets and a profit motive, and privatisation. As noted earlier, enterprises in the Soviet system faced administratively-set prices for their inputs and their products. Thus, input prices did not necessarily reflect the true value of their use, and final product prices bore no relation to the demand or supply of these products. There was, therefore, no signal from consumers to producers regarding the desire for particular products in the market. Similarly, there was no signalling from raw materials producers to manufacturers regarding the relative costs of using particular inputs, so the manufacturing enterprise had no way of identifying the most cost-effective way of producing.

Finally, there was no profit motive. The goal of enterprise managers was to ensure that their particular part of the plan was fulfilled. The central plan set quantitative output requirements rather than targeting enterprise profits (which would have come closer to ensuring appropriate outputs and efficient use of inputs), and enterprise losses were largely covered by transfers from the state. Profits in this system were irrelevant because firms were under no obligation to make a profit to survive—what Janos Kornai famously described as the soft budget constraint (Kornai 1992). So, on one hand, enterprise managers had no incentive to improve or diversify production because doing so could jeopardise fulfilment of output targets, and, on the other hand, they had no incentive to achieve output targets efficiently because they did not have to pay for their inputs and did not have the discipline of having to make a profit.

Enterprise reform meant that the firm should operate with

- 1 market-determined prices for inputs and outputs
- 2 enterprise autonomy in decisionmaking
- 3 a profit motive and a hard-budget constraint

This effectively meant that those running the enterprise would make production decisions that would at least approximate market-based decisions. They would choose production inputs based on a range of factors including cost, quality, availability, and so forth; they would try to implement the most efficient production process possible; and they would choose their output mix according to consumer demand—all guided by the profit motive.

This would be underlain by the twin factors in enterprise autonomy—decision-making autonomy and financial autonomy. Enterprise managers would have the power to make decisions about all these facets of production, but would also have a responsibility to ensure that the enterprise remained financially viable without recourse to the state budget.

The basic aim of this aspect of the transition was making enterprises more responsive to market needs and conditions, particularly the relative scarcities of inputs. Reform was meant to raise the efficiency and reduce the wastefulness of Soviet production. It was hoped that, with the correct incentives in place, enterprises would increase and improve production, eliminating the shortages that characterised the Soviet economy and providing better, more appealing goods and services.

Reform was also meant to reduce the burden of this sector on state finances. If firms' reliance on the state budget were eliminated it would go some way towards reducing the overall fiscal instability that beset all the transition economies during the initial reform period.

Thus, enterprise reform sought to restructure state-owned firms in order to eliminate soft-budget constraints and government interference in production decisions, free the enterprise from the constraints of the plan, provide workers and managers with proper incentives to work, and institute higher-quality management and production processes.

2.3.4 Privatisation

The crux of the transition debate came to be privatisation. The most ardent agitators for privatisation saw it as crucial to the creation of a private sector, and argued that privatisation was the only way state enterprises could be made to face consistent profit motives and hard-budget constraints. They also asserted that private property rights and private ownership were crucial to the operation of non-state enterprises.

There was considerable strength to this argument: at the outset, it was not clear that politicians, facing massive social upheaval, would be able to resist enterprise managers' calls for subsidies. If these calls proved irresistible, the enterprise restructuring would be useless from the microeconomic perspective of making enterprises operate like Western-style private firms and from the macroeconomic perspective that these subsidies would continue to inflate government budget deficits.¹⁵

Types of privatisation scheme? A number of different approaches to privatisation were adopted throughout the transition region. The World Bank (2002b) identified three broad strands of privatisation approach: direct auctions/sales (that is, sales to the highest bidder), voucher schemes, and 'buyouts' by enterprise managers and/or employees.¹⁶

- Direct sales/auctions were simply sales, by tender or otherwise, for cash. The benefit of this was simplicity, speed, and the infusion of cash it provided to the government budget. The negative side was that, in the post-Soviet situation, where hyperinflation had eroded most people's savings to nothing and most people had no assets, cash privatisations tended to favour those who had access to either credit or cash—predominantly the *nomenklatura*, the incumbent élite.
- Voucher schemes involved distributing privatisation vouchers, according to some formula, to almost all citizens in the country, who could then redeem them for shares in privatising assets. In some cases, investment companies were set up so that citizens could gain shares in the investment company, which would then bid in privatisations. The voucher schemes were an attempt to involve as many people as possible in the privatisation process, thus developing a broad popular base in favour of the reform process generally. The voucher schemes' drawback was generally their complexity.
- Manager/employee buyouts—either through cash sales, some sort of voucher deal, or through direct handover of ownership—were expected to place ownership in the hands of those people who had the greatest incentive to make the privatised enterprise work properly: its staff. The negative aspect was that former state-

enterprise managers and workers were not necessarily equipped with either the experience or the will to run a private enterprise properly in a market environment.

In reality, each transition country has pursued different combinations and permutations of these three types of scheme. The privatisation programs adopted in the Central Asian republics are discussed at length in Chapter 4.

2.3.5 Institutional change

What are institutions? The term 'institutions' is quite difficult to define comprehensively. Broadly speaking, it refers to all those things that underpin economic interactions in a particular society. Thus, it can mean, on the one hand, public and private organisations that facilitate economic activity, such as banks, the judiciary, regulatory agencies,¹⁷ but in general use it can also refer to the rules of economic interaction. The more tangible of these are, of course, legal systems and legislation, but unwritten codes and expectations are just as important even though they are less quantifiable.¹⁸ As North (1991:3) notes, they are 'the rules of the game in society or, more formally, are the humanly devised constraints that shape human interaction...they structure incentives in human exchange, whether political, social or economic'.

The problem of institutions in transition should be obvious: the post-Soviet states were attempting to create market economies, but lacked the formal and informal institutions to support such a system in a positive way. It proved possible to alter formal institutions rapidly in the short term, by drafting and enacting new laws and creating new organisations to oversee them. In practice, however, it has proved far more difficult to enforce these new institutions and make them credible. It has also proved difficult to change rapidly the informal institutions that govern the way most people act every day.¹⁹ In the interim, old institutions can persist or even grow stronger, potentially locking the economy into a poor institutional equilibrium. In this respect, Moers (2002) argues that a number of features of transitional economies, such as tax avoidance and inter-enterprise arrears, can be seen as products of old conventions persisting in the new economy.

The relative importance and difficulty of institutional change was only belatedly recognised widely (see Murrell 2003; Cornia and Popov 2001). There may be an element of misunderstanding involved—early radical proponents of reform did mention institutions, but referred specifically to formal institutions and organisations like banks, legal systems and courts. Institutional and evolutionary economists seem to be taking the term more broadly to mean both formal and informal institutions—that is, the broad swathe of rules and conventions that determine economic interactions. Roland (2001:36–37) sums up the situation, stating

it would be completely wrong to state that the Washington consensus has ignored institutional reform while the evolutionary–institutionalist perspective has not. While the latter insists more on institutions than the former, the main differences are elsewhere. The Washington consensus emphasises mainly the introduction of laws: adequate laws to secure private property, rights of shareholders, creditors and so forth. The evolutionary–institutionalist perspective takes a more comprehensive view toward institutional conditions. These include not only legal and financial change but also comprehensive conditions of law enforcement, including reform of the organization of government and the development of self-enforcing social norms that foster entrepreneurship, trust, respect of legality and commitment.

Worldwide, the market economy is not homogenous; each separate economy is unique. Market-based systems can operate in a number of different ways, at a number of different potential equilibrium points. Institutions are therefore important in influencing the way in which the economy works, essentially determining the stable point to which the economy will gravitate.²⁰

Measurement of institutional change. Recognising the potential value of institutions in explaining economic performance, a number of economists and political scientists have sought to develop measurable indices of institutional quality. Examples include Djankov et al. (2002, 2003), who concentrate on individual indicators of institutional quality: the regulation of business entry and the efficacy of courts; Campos (1999), who looks at five aspects of institutions of political economy in transition economies; Brunetti et al. (1997), who look at institutional reliability;²¹ and Kaufmann et al. (2003), who develop a number of indicators to measure governance developments in 199 countries.

This thesis uses the data collated by Kaufmann et al. (2003) as a guide to institutional and governance developments in the region because their country coverage is the most extensive and up-to-date, they draw their data from the widest range of sources (thus limiting bias to an extent), and they provide data on the widest range of institutional factors. This is not to say that the Kaufmann et al. approach is without problems, as they themselves admit. Great caution should be deployed in interpreting their results, and their measures should be taken as purely indicative.

The factors Kaufmann et al. (2003) try to measure are: control of corruption, rule of law, regulatory quality, government effectiveness, political stability, and voice and accountability.²² One of the benefits of their approach is that, rather than present purely formal indicators of institutional change (eg. a law stipulating a particular court or process), they concentrate on measures of the effectiveness of institutions.

2.4 TRANSITION ISSUES

2.4.1 Is there an optimal speed of transition?

The optimal speed of transition (OST) debate was probably one of the most acrimonious and least fruitful academic exercises of the past decade. That it persists, ten years after it had any practical relevance anywhere except for perhaps North Korea and Cuba, is testament to its fiery nature. Essentially, a false dichotomy was established between the so-called 'gradualists' and those who favoured a 'big-bang' approach to reform.²³

Gradual reforms. The gradual reform approach can be roughly divided into three streams of thought—structural conservatism, the institutional approach, and the political economy approach—which are not exclusive of one another.

By structural conservatism, I am referring to an approach that seeks to minimise the break with the old system, and hence the minimise the dislocation unleashed by change. It seeks to maintain the old while building the new. Taking as their guide the reasonably successful reforms in China, followers of this approach argued that a cautious, slow approach to reform was the most advisable. A dual-track pricing and production system

should be adopted under which planned levels of both agricultural and industrial production were sold at government-set prices, and above-plan production of both agricultural and industrial goods that could be sold at market prices. Producers would be given increased autonomy in decisionmaking regarding the input and output mix, and firms would be allowed to retain higher levels of profits and would have autonomy over how these would be used. The reforms would try to induce in existing state-owned firms an approximation of the behaviour of a private firm operating in a market economy, and this reform would be accompanied by legislation allowing new non-state firms to begin production and directly compete with state-owned enterprises (see, for example, Gelb et al. 1993). As Kenneth Arrow retrospectively argued for the European transition economies

[p]rivate enterprise should have started in commerce and light industry through free entry by entrepreneurs financed directly or indirectly by current savings. In the long run, profit generated in this sector would have been used to finance entry of new enterprises into heavy industry. In the meantime, heavy industry should be restructured into viable operating firms... Each firm has to pay its own way, and the government has to be prepared to shut down long-term losers (Arrow 2000:17; see also Murrell 1992a:44–45).

In agriculture, land would be leased (or sold) to private operators who would have responsibility over production decisions and marketing preferences, would keep a proportion of the profits, and would be able to determine any production in excess of plan requirements.

Under this approach, it was envisaged that the plan would slowly wither away as the market came to dominate economic activity (see McMillan and Naughton 1992). Output targets would be slowly retrenched and the gap between plan prices and the price available for the same goods traded in the market would gradually converge, thereby eliminating the distortions caused by price fixing.

While the Chinese experience provided a guide for this approach, most of the gradualists recognised that the Chinese experience would not be replicable in most of Eastern Europe and the former Soviet Union,²⁴ and do not flinch from the realisation that these reforms had generated problems of their own (Singh 1991; McMillan and Naughton 1992).

Nonetheless, the Chinese idea of avoiding dislocation, serious shocks and catastrophic collapse was at the heart of the gradual approach. Gradual reform would give the private sector an opportunity to develop, but would not demolish the old economy in the meantime (Aghion and Blanchard 1994). Thus, firms would have the opportunity to restructure and become more efficient producers; access to essential services and minimal dietary requirements could be ensured for the majority of the population (Singh 1991; Arrow 2000); and trading relationships driven by the command economy system could be prevented from collapsing, restructured, and made more sensible—an especially important factor given that the collapse of trading relationships drove much of the collapse of industry in the Soviet Union's transition (Arrow 2000; Roland 2001). The crux of the gradualist approach was to introduce reforms that enabled rather than enacted a market economy.

A related strand of thought was developed by the institutional economists, who were concerned about the development of correct institutions for a market economy. They

argued that economic behaviour is determined by the way in which people interact with one another, and the way in which economic agents interact with other structures such as the legal system, or the government.²⁵ As discussed in section 2.3.5, poor institutional frameworks can retard economic activity by making trade and economic activity too risky.

The institutional economists argued that institutions do not and cannot change rapidly, thus the rapid destruction of the old system envisaged by radical reformers eradicates the old institutions but sets up nothing in their place. Nolan, for example, notes that '[d]estroying existing institutions has a high cost in that it takes time for individuals to reconstruct their knowledge about the workings of the economy' (Nolan 1995:57).²⁶ Others pointed out that institutions must be credible to work properly. It is not enough simply to invent property rights or regulatory regimes, they need to be effective, otherwise people will at best ignore them (Koslowski 1992).

Institutional economists argued that gradual reform was necessary to allow proper, functioning institutions to develop, avoiding any catastrophic institutional interregnum and minimising the risk of developing a negative institutional framework that would be inherent in any radical uncontrolled reform program. In this respect, Chen et al. (1992) argue that this may cause problems because institutions are the underlying structure determining economic activities and outcomes, and flawed institutions and policies can themselves impede reform.²⁷ They argue that there will be a period of relative chaos while replacement institutions are being developed, and that the institutions developed as an endogenous response to blanket liberalisation may not lead to the right outcomes. Thus, they argue that it is better to retain the institutions of the flawed old system until a new set has been specifically and actively developed.²⁸

There is also a political economy basis for gradual reform. Roland (1997) and Dewatripont and Roland (1992, 1995), for example, argued that a gradual transition could be self-affirming, with early successes generating popular support for further reforms. Furthermore, Roland (2000) posits that, if there is widespread uncertainty about the outcome of reforms (particularly in terms of distributional outcomes, but also economy-wide outcomes) and the costs of reversing the reforms are expected to be high, the reforms may be politically unviable even though they would benefit the majority of the populace. Thus, they argue that there may be a role for partial reforms in minimising the reversal costs and, if effective, building 'constituencies for further reform' (Roland 2001:5). Wei (1997) develops this line of thought, arguing that multiple phases in a reform program *may* be a way of overcoming initial political resistance. Wei's argument is that a one-step big-bang reform package may generate too much political resistance by encroaching on the interests of too many groups simultaneously. If the same package is introduced in discrete phases, it becomes more difficult for groups to maintain coherent resistance.

Alternatively, McMillan and Naughton (1992) argued that it is impossible to know ahead of time what the necessary sequencing and timing of reform measures in the 'big-bang' approach should be, how the reforms should be undertaken, what the end-point should be, among other things (see also Murrell 1992a). Thus, a step-by-step process would allow reformers to experiment. Reformers would be able to develop a specific

policy, implement it, and assess its impact. They could then reformulate it to make it more workable, or reverse it in the case of catastrophic outcomes (see also Dewatripont and Roland 1995, 1992; Nolan 1995).

Michael Bruno (not strictly a gradualist), in a different approach, pointed to the fact that not all aspects of a transition package necessarily have to be performed at the same speed. He argued that, while macroeconomic stabilisation should be undertaken as rapidly as possible, there is no obvious reason why liberalisation (such as trade liberalisation or privatisation) could, or even should, be undertaken at the same speed (Bruno 1994). This ties into the argument made by Kenneth Arrow, who notes that '[i]t is usually argued that privatisation is an inseparable concomitant of the market system. But this further step is logically distinct from the acceptance of the price system or even markets' (Arrow 2000). As we shall see, advocates of the big-bang approach contested this claim.

'Big-bang' reforms. The most eloquent enunciation of the radical approach was that of Lipton and Sachs (1990). Their argument is based on a number of economic and political projections. They argued that stabilisation policies would probably have some negative consequences, hence the reform program should be introduced as quickly and simultaneously as possible so that the reforms would be entrenched and irreversible by the time any populist backlash developed. Balcerowicz (1994a) and Åslund et al. (1996) developed this point, arguing that there would be a brief interim period during which reforms could be enacted; a gradual approach would be cut off mid-program as the popular mood turned away from reform.

Other arguments concentrated on holdovers from the old system. Lipton and Sachs (1990) argued that the people charged with managing the economy would be the bureaucratic corps that had survived from the old system. Their experience and mentality would be that of the old system, thus they could not be 'relied upon for efficiency in regulating monopoly prices, promoting infant industries, or implementing industrial policy' (Lipton and Sachs 1990:88). On a similar note, Åslund (1994) somewhat optimistically argued that rapid privatisation would prevent the old *nomenklatura*, the Soviet era élite, from appropriating state assets.

Far less tendentiously, those in favour of radical reform argued that partial liberalisations would open up opportunities for corruption (Lipton and Sachs 1990; Woo 1994; Murphy et al. 1992; Åslund et al. 1996). Thus, in an economy with both administrative prices and market prices, those with access to goods at administrative prices have an incentive to re-sell those goods at market prices. Indeed, this argument has repeatedly been vindicated in the Central Asian context, where the initial Russian price liberalisation compelled the Central Asian republics to liberalise prices to halt the flow of goods out of the region, and remaining price controls in Uzbekistan and Turkmenistan continue to generate rents for select groups. The sustainability of the Chinese dual price system—the model for gradual transition—is based on draconian enforcement, which many of the European transition nations either could not or would not emulate. In Central Asia, Uzbekistan and Turkmenistan have maintained price restrictions, but these countries are also strongly, but not perfectly, repressive states.

They also persuasively argued that piecemeal reforms could not work. The reforms needed to be introduced *en masse* as they all reinforced and relied on each other. As Lipton and Sachs put it:

Structural reforms cannot work without a working price system; a working price system cannot be put in place without ending excess demand and creating a convertible currency; and a credit squeeze and tight macroeconomic policy cannot be sustained unless prices are realistic, so that there is a rational basis for deciding which firms should be allowed to close. At the same time, for real structural adjustment to take place under the pressures of tight demand, the macroeconomic shock must be accompanied by other measures, including selling off state assets, freeing up the private sector, establishing procedures for bankruptcy, preparing a social safety net and undertaking tax reform (Lipton and Sachs 1990:99).

Åslund (1994) argued for the simplicity of the radical reform package. This is linked to the argument that, if a gradual approach were adopted, it was not obvious what the correct sequence of reforms would be. Given that Fischer and Gelb (1991)—prominent proponents of rapid reform—had already developed a logical *sequence* of reform measures under a rapid reform program, it is not clear how valid this argument was.

The benefits of history. In hindsight, most of the division between big-bang and gradual reforms appears to lie in differences in emphasis. Where the big-bang reformers put the majority of emphasis on the price and market liberalisation, particularly through rapid retreat of the government from overt involvement in economic activities (ie. privatisation), the gradualists placed more emphasis on enterprise restructuring and institutional development.

Unfortunately, as so often happens in the real world, both points of view were partly correct. With the benefit of hindsight, it is possible to see the conflict between these two points of view as somewhat of an unnecessary distraction (Ellman 1997). As Pomfret (2002b) notes, given the range of things that needed to be done, there could be no total Big Bang: some aspects of the transition would by necessity follow others (as was recognised early on by some big bang proponents, such as Fischer and Gelb (1991) and Balcerowicz (1994a)).²⁹ A sensible approach would have been pragmatic, doing quickly that which could be done quickly, and slowly that which could only be done slowly. The big-bang reformers were correct to argue that continued economic distortions would be extremely destructive and would open up opportunities for corruption and that it would be best to get the transition economies functioning on a market basis as quickly as possible. At the same time, the gradualists were correct in arguing that radical shifts would cause economic disruption, and institutional economists were correct to argue that market economies require a functioning institutional framework to deliver the correct outcomes.

Because even the most ardent big-bangers recognised that some things (like institutions) would take longer to change than others, and the gradualists were overtaken by events with the early and swift price liberalisation in the Soviet Union/CIS, the debate came to focus on privatisation.

2.4.2 Privatisation and transition

It seems odd in hindsight that privatisation came to be the focal point of debate about transition. In almost all countries small and medium enterprises were placed under private control quite rapidly and without much complaint.³⁰ The crux of the issue seems

to have been the privatisation of large-scale enterprises. The big-bang approach of rapidly exposing these enterprises to market discipline and eliminating the burden they place on state budgets had appeal. Unfortunately, the privatisation process could not guarantee either of these things.³¹

Time has exposed the naiveté of the big-bang approach.³² The quality of privatisation matters at both the micro level and the macro level. It is clear that reforms undertaken rapidly are not an effective substitute for considered, well thought out, reforms (see, for example, Ellman 1997). At the micro level, privatisation has not helped if the new owners have neither the skills nor the incentives to run the businesses as profit-making concerns. At the macro level, poor privatisation has concentrated wealth in the hands of a few, and in the worst cases has led to alliances between political and economic interests in, for example, Russia and Kazakhstan (Pomfret 2002b; Stiglitz 1999). The presence of large, poorly governed enterprises has hampered the emergence of dynamic new enterprises, because large-scale entrepreneurs acting in a negative way can impose entry barriers on new firms—such as violence, political intimidation, risk of expropriation, and so forth—that prevent these firms from emerging. Russia represented a kind of worst-case scenario for this—a few select entrepreneurs in alliance with the state executive are able to avoid taxes and other legal obligations and are able to deploy violence against competitors with near impunity. This is coupled with a bureaucracy riven by corruption and a state chronically unable to protect property rights. In short, property rights are useless if you can't protect them.

2.5 CONCLUSION

Economic stagnation in the Soviet Union and Eastern Europe was bound up with moves to alter significantly the economic and political structures of the region, but economic stagnation alone is not enough to effect such a change in totalitarian societies. The potential for economic and political reform emerged in the Soviet Union because economic stagnation removed the positive incentive of present or future well-being at a time when the state's repressive and coercive power was waning. This opened a 'window of opportunity', to use Balcerowicz's (1994a) phrase, in which far reaching economic and political reform—the transition—could be enacted.

The meaning of transition is harder to define. The assumption of the time was that transition involved a shift away from totalitarianism and the command economy towards democracy and a market-based economy. While this basically defines the process in Eastern Europe, the Central Asian economies do not appear to be following the path—some have introduced considerable economic reforms, others have not; but none of the Central Asian republics are democratising (see Chapters 4 and 5).

In the economic sphere the problem is less acute. Most economists were able to agree on the basic outline of what economic transition involved—macroeconomic stabilisation, liberalisation, and institutional change—but disagreed, often vehemently, on the appropriate speed and focus of reform efforts. Some reformers persuasively argued for rapid and radical reforms that would divest state of most of its involvement in the economy by rapidly liberalising all prices, trade, wages, and so forth. The

gradualists and institutional economists urged caution, contending that radical reform should be avoided for many reasons, not least of which were its inherent uncertainty and the structural and institutional void that it would create. Both sides can claim some vindication in results in the region, but, as we shall see, this is clouded in Central Asia by factors particular to the region and the individual republics.

NOTES

- ¹ The Washington Consensus, as elaborated by Williamson (1990), is a reasonable set of policy approaches that would be broadly agreed by most non-Marxist economists. Whether economic reform in South America is a germane or even appropriate model for reforming centrally-planned economies is another question.
- ² See, for example, Linz and Stepan (1996a).
- ³ Nodia (1996:3) presents the most optimistic political approach, arguing that '[p]ost-communist transitions, however "troubled", may still be regarded as transitions to democracy—if only because leading political actors realise that there is nothing else to make a transition to'. Other political theorists were not so certain of the outcomes; see, for example, Linz and Stepan (1996a).
- ⁴ Bunce (1999:780) argues that this was a natural assumption because '...democracy and capitalism are based in precisely the same principles, albeit applied to different arenas of human activity; uncertain results combined with certain procedures', but then goes on to point out a number of reasons why the assumption is not that strong. She points out first that capitalism and dictatorship often coincide and that painful economic reform can often have negative consequences for weak democratising states.
- ⁵ Extensive growth is that derived from the addition of further inputs into the production process. Intensive growth, on the other hand, results from increasing the productivity of inputs into the production process. All economies, obviously, grow through some combination of extensive and intensive processes, but Soviet economic growth was quite deliberately directed towards the extensive path. Ofer (1987:1782) thus argues that input growth was the driving force behind economic growth in the Soviet Union, contributing to 80 percent of all growth in the postwar period and subsequently becoming 'its sole component from 1970 on when productivity completely stagnated or even retreated'. Easterly and Fischer (1994) counter that such processes were not unique to the Soviet Union and could be seen in Western nations such as Japan and the East Asian newly industrialising countries. Both articles were written prior to the East Asian financial crisis.
- ⁶ See Chapter 11, 'Shortage and inflation: the phenomena' in Kornai (1992) for a detailed discussion of shortages.
- ⁷ As Robinson notes, 'An absolutist-bureaucratic state will try to manage this dissonance between ideology and social needs by indoctrination (persuading people that their actual desires reflected in official ideology), but it will also use terror to destroy social groups that it deems to be in opposition to its new society, or that it considers to have no place in such a society...Violence—both real and threatened—is thus integral to absolutist-bureaucratic states to an extent that is far beyond what is normal in absolutist-patrimonial states' (Robinson 2002:11).
- ⁸ As O'Donnell et al. (1986:21) put it '[t]he real move for transition can only break out into the open when the regime's "cohesion, capacity and disposition to apply repression" are for some reason lacking'.
- ⁹ Tangentially, the current strength of Putin rests on a combination of the massing of popular will against the threat believed to be posed by Islamic separatists, strengthening of state control over the means of dissent, and the incentive provided by apparent economic revival.
- ¹⁰ This is noted, for example, by both Havrylyshyn (2001) and also Roland (2001).
- ¹¹ This view was substantially bolstered by Bruno and Easterly's (1995) seminal working paper, 'Inflation crises and long-run growth'. The influence of this paper can be seen in the now almost universal acceptance of 40 per cent per annum as the critical threshold level of inflation beyond which economic growth will inevitably be curtailed (for example, World Bank 1996; Akaev 2001)—precisely the figure Bruno and Easterly (1995) suggest. That said, there is evidence that the threshold may be even lower (Pomfret 2002b; Ghosh 1997).
- ¹² The authorities repeatedly tinkered with the price setting system through the Soviet period, but the essential lack of an allocative role in Soviet prices was maintained fairly consistently. See Nove (1977) for full details.
- ¹³ There were, however, unofficial markets throughout the Soviet era. See, for example, Nove (1977); Ledeneva (1998).
- ¹⁴ Although some caution should be exercised here: Nove (1989) described how subsidies to agriculture exploded through the Brezhnev era, even in the wake of Khrushchev's drives to expand agricultural production through revised incentives.
- ¹⁵ As it turned out, privatisation was neither a sufficient nor necessary condition here. Privatised enterprises in Russia continued to rely on quasi-fiscal subsidies long after they were privatised. The now largely forgotten Virtual Economy thesis—invented and supported by some of the most radical proponents of privatisation—was an implicit admission of this fact (Gaddy and Ickes 1998).
- ¹⁶ 'Buyout' may be a slight misnomer: in some cases governments just gave enterprises to the insiders.
- ¹⁷ Fischer and Gelb (1991:100) refer to such things as 'secure legal environment...to protect property rights...Accounting and audit systems...[and also] investments in human capital...Management skills have to be upgraded'.
- ¹⁸ The World Bank (2002a:3–4) points to institutions as '[r]ules, enforcement mechanisms, and organizations supporting market transactions...they help transmit information, enforce property rights and contracts, and manage competition in markets'.
- ¹⁹ Consider, for example, the persistence of *blat* in post-Soviet societies (Ledeneva 1998). Nazpary's (2002) work also describes extensively informal constraints on behaviour in post-Soviet Kazakhstan. Litwack (1991) discusses the highly specific non-market institutional framework in the USSR and also the problems encountered when trying to shift from this system to a market-based system founded on legality.
- ²⁰ See, for example, Olson (1996); Daianu (2001); Moers (2002).
- ²¹ The institutions Campos (1999) considers are: '(1) the executive, (2) the bureaucracy, (3) the rule of law, (4) the character of the policy-making process, and (5) civil society' (1999:6). Brunetti et al. (1997:4) concentrate more closely on economic institutions, surveying people on '(i) predictability of rules, (ii) political stability...(iii) property rights security, (iv) judiciary reliability, and (v) lack of corruption'.

- ²² Interestingly, this is strongly reminiscent of Linz and Stepan's (1996b) six conditions for consolidated democracy, which include a functioning state, a civil society, an 'autonomous political society', rule of law, a functioning state bureaucracy, and an 'institutionalized economic society'.
- ²³ Gerard Roland, for example, notes that the distinction between 'big-bang' and 'gradualist' reformers is unhelpful because it focuses attention on the speed of reforms instead of other far more important aspects (Roland 2001). Jose Mencinger (2000) similarly argues that it is difficult to classify economies into these categories because just about none of the countries adopted exclusively big-bang or gradual approaches. In practice, every country experienced a mixture of the two.
- ²⁴ See, for example, McMillan and Naughton (1992); Chen et al. (1992); Gelb et al. (1993).
- ²⁵ See, for example, McMillan and Naughton (1992); Murrell (1992a, 1992b); North (1997); and Nolan (1995).
- ²⁶ See also, Yavlinsky and Braguinsky (1994); Arrow (2000); and Ericson (2002).
- ²⁷ See also Moers (2002).
- ²⁸ See also Koslowski (1992).
- ²⁹ Because the big bang presented a concrete program with a diverse set of requirements, and the gradual reform emphasised experimenting with small, discrete reform advances, big-bang proponents had more scope for disingenuousness in explaining failures. Portes made in 1991 the rather prophetic point that '...it is impossible to test the desirability of the pure Big Bang, simply because of administrative and institutional constraints. It will therefore always be possible to claim that a given package, though brilliantly planned, was totally undermined by the omission of some key measure' (Portes 1991:7). For exactly this kind of defence, see Åslund (1999a, 1999b).
- ³⁰ For a description of the process in individual Central Asian republics, see Chapter 4.
- ³¹ A realistic assessment of Western economies should have told economists that governments in otherwise highly capitalistic societies (such as the United States) frequently waste tax revenues propping up uncompetitive private firms and industries for political and/or social reasons. There is nothing about transition economies to suggest they would be different.
- ³² Åslund (1994) supplies a breathtaking example of this 'naïveté', arguing that '[i]t is true that the short-term effects of comprehensive liberalization are also hard to assess, but we do know that market economies work better than command economies'. What he really meant is that *working* market economies work better than command economies. No such bland generalisation can be made about market economies that do not work well or at all.

3 MACROECONOMIC INSTABILITY IN TRANSITION ECONOMIES

3.1 OVERVIEW OF MACROECONOMIC INSTABILITY

Macroeconomic instability was the most prominent characteristic of the transition period. Massive and unexpected measured falls in output were accompanied by outbreaks of rampant inflation. As a consequence, macroeconomic instability came to dominate perceptions of transition economy performance so much that success in curbing instability has come to be a proxy for success in transition (among many others, see Åslund et al. 1996, de Melo et al. 1996, World Bank 1996). This chapter discusses the main theories of macroeconomic instability, looking first at theories seeking to explain the output decline (section 3.2) and then theories to explain the inflation surge (section 3.3).

3.2 OUTPUT DECLINE

3.2.1 What caused the decline?

Various theories have been proposed to explain the output collapse in the transition economies during the 1990s. Following and expanding on Williamson's (1993) approach, these are set out below according to their influence as demand or supply shocks. In addition, some observers have also pointed to the role of statistical mismeasurement in explaining the perceived decline; and institutional and evolutionary economists have argued that institutional difficulties, rather than conventional supply and demand factors, are critical. The alternative arguments are outlined in section 3.2.4. It is important to remember, however, that these often different interpretations are not necessarily exclusive—it is likely that both demand and supply factors influenced outcomes, and it is likely that institutional factors have also played a role. A particularly good example of this is the collapse of trading relations, which would have had both demand and supply-side impacts on output. Furthermore, the relative importance of particular explanations will tend to vary according to the individual circumstances of each transition country.

3.2.2 Demand side

Keynesian demand deficiency. Keynesian demand deficiency is the name given to the decrease in demand that arises from tight macroeconomic policies (Williamson 1993). This decrease in demand is communicated to the industrial sector, which responds by reducing output in order to maintain profitability. The most obvious cause of this kind of demand influence would be the restrictive monetary policies adopted to restrain

inflation in many of the transition economies. In the Central Asian case, the disappearance of direct inter-republican subsidies from the Soviet centre during transition would be another very prominent source (see De Broeck and Kostial 1998).

This is a tempting theory. Many transition economies did introduce tight macroeconomic policies, raising real interest rates to positive levels, and this would be expected to reduce aggregate demand within the economy. The withdrawal of government procurement, and government spending generally, will also effect economy-wide levels of demand (Borensztein 1993). In the transition economies, this may have been compounded by decreases in consumer demand owing to delayed salary payments in the state sector as well as the erosion in real wages.

There is, however, some reason to doubt this as a prime explanator in the transition economies. Countries that imposed severe macroeconomic stabilisation measures (for example, through high real interest rates and decreased subsidies) do not seem to have suffered any deeper or more prolonged recession than countries that did not. In fact, the opposite often seems to be the case. Poland is the most prominent example: it rapidly adopted strong stabilisation policies, but has subsequently been one of the standout performers among the transition economies (Lipton and Sachs 1990; Åslund et al. 1996; Balcerowicz 1994b)

Demand shift. Another type of demand shock is known as a demand shift. In this situation, there is a comprehensive shift of demand from one type of good to another. As demand shifts away from certain products, resources have to be reallocated away from the previous production processes towards new ones, causing a temporary decline in output. Williamson notes that '[t]here is typically a delay between their release and their reabsorption in a different activity, and in the meantime they produce nothing and in consequence output declines' (Williamson 1993:32). This is particularly compelling in the transition context (Williamson 1993, World Bank 1996). As noted in Chapter 2, the Soviet economy was heavily distorted by government preference for the development of heavy-industry, and particularly the military-industrial complex, at the expense of consumer goods production. As a result, services and consumer goods were largely undersupplied (Winiecki 2000; Wing Thye Woo 1994). With allocation increasingly based on market supply and demand, and the government withdrawing subsidies, a demand shift would take place from the industrial sectors towards the service sector and consumer goods manufacturers (de Melo et al. 1996:402; Kaser 1998; Kornai 1994; Åslund 1994).

Kornai goes further by discussing the shifting relationship between consumers and producers. He notes that the economy in transition shifts from 'a supply-constrained economy to a demand-constrained economy' (1994:41). What this means is that, prior to the reforms, consumers could only purchase what was supplied by the state firms. If they could not buy what they wanted, they were forced either to substitute some less-desirable option or to save involuntarily. This had the effect of both artificially boosting demand for the products of the socialist economies and of artificially increasing savings levels. Thus, once the reforms had opened up consumer markets to new domestic suppliers and foreign suppliers, consumers had far more choice in what they purchased. They were no longer compelled by poor supply to substitute to less desirable products

(subject, of course, to individual budget constraints). Consequently, the old enterprises faced a situation in which the constraints that had held demand for their products artificially high were removed. Their response would be either to change production or go bankrupt, thus causing output declines in either the short or long run. This was likely exacerbated by the erosion of real wages during the inflationary surge—as real wages declined consumers came to spend proportionally more of their income on food and other essentials and delayed purchases of less essential goods, which tend to be more elaborately transformed manufactured goods.

Hoarding. Winiecki (1991, 2000) argues that much of the transitional recession was due to enterprises and consumers changing their behaviour. He argues that supply uncertainties, under which future goods or input supplies could never be guaranteed, distorted demand because consumers and, more importantly, enterprises would hoard goods and inputs to insure themselves against future supply interruptions. This was particularly important for enterprise managers, who were judged on their ability to fulfil plan requirements—any shortfall in supplies could impede production and hence jeopardise their career. Thus, according to Winiecki, when reforms established proper market conditions of competitive supply, enterprises no longer needed to hoard goods and consequently began running down their reserves. Aggregated across a large number of firms, this running-down created a serious interruption to demand, which in turn induced a one-off fall in output (see also Williamson 1993). This seems highly unlikely. A one-off fall can only explain a minimal amount of the fall in output that has been observed in transition economies over the last decade. Second, in a high inflation or hyperinflationary economy, it is unlikely that either consumers or producers will suddenly decide to start holding cash instead of products. If anything, hoarding is likely to have been exacerbated in the transition period as consumers sought to convert currency holdings into assets of almost any kind.

Trade collapse. The Soviet bloc had extensive internal trade linkages. Members of the Council for Mutual Economic Assistance (CMEA), the trade arrangement among countries of the Soviet bloc, were something of a captive market for Soviet products. Members were ideologically committed to purchasing products within the CMEA, regardless of their value or utility, and irrespective of whether similar or better products could be sourced more cheaply outside the CMEA. Winiecki (2000:270) states that '[a]part from the trade in raw materials that largely survived the collapse of communism...most of the trade consisted of intermediate inputs and investment goods, usually of sub-standard quality and saleable on the CMEA markets thanks to the generalised excess demand...'. With the liberalisation of trade in central and eastern Europe, these traditional products were exposed to competition from suppliers from outside the CMEA, and producers turned to non-CMEA suppliers that produced cheaper or higher quality goods. Sourcing such goods outside the CMEA would inevitably decrease demand in the former CMEA and would consequently impact on output.

That the collapse in trade links was instrumental in the GDP contraction is widely agreed among economists. Kornai (1994), for example, points to the collapse of CMEA trading relations as one of the most serious factors in the output decline.¹ He argues that the CMEA allowed the skewed industrial structure of these economies to be maintained

and that, once the CMEA had collapsed, '[t]he structure of these economies must be altered once and for all before they can prosper without it' (Kornai 1994:56). This can be seen as a demand shift operating on the regional trade level. Kornai's theory is echoed by Borensztein et al. (1993:3) who argue that 'the CMEA shock simply reflected a collapse of activities that were no longer competitive once the system of central planning was abandoned and enterprises began to face world market prices for their inputs and outputs'.

More properly the collapse of trading relations should be seen as both a demand and supply-side shock (Wing Thye Woo 1994). Even more intense than trading relations within the CMEA, however, were the economic linkages within the Soviet Union. As noted in Chapter 1, the republics of the Soviet Union were part of a unified economic space, in which production lines extended across republican borders in highly complex networks. When the Soviet Union collapsed, these links were either severed or made more difficult or costly to maintain, a situation exacerbated by the introduction of complex international trade requirements, not to mention trade obstructions, and the collapse of international payments systems (De Broeck and Kostial 1998; Schoors 2003; Pomfret 2001b). In this respect, the Eastern European economies were in a more favourable position than the FSU economies when transition began because their economies were far more self-contained than those of the Soviet republics.

3.2.3 Supply side

Price liberalisation and enterprise restructuring. On the supply side, freeing up prices to reflect relative scarcity alters the viability of enterprises (Williamson 1993, de Melo et al. 1996). At the same time, enterprises lose the flow of subsidies from the state and face newly-hardened budget constraints. In the new circumstances, those enterprises that do not add sufficient value to inputs will not survive. If the costs of production are too large given the revenue that can be generated from sale of the final product, the enterprise will not survive in a competitive market environment. As the market is opened up, such firms are forced to retrench production, and this causes overall economic collapse if aggregated across a large enough number of firms or sectors. As De Broeck and Kostial note, '[l]arge changes in relative prices induced by the combined price liberalization and opening to world markets significantly affected sectoral prospects, and created incentives to withdraw or reallocate factor inputs across sectors' (1998:26).

The very process of restructuring the apparently highly distorted centrally planned economy towards serving market demands necessarily requires old activities to be retrenched, and new activities to be allowed to develop. This can cause transient output falls as resources are dropped from the old sectors but are not taken up immediately by new growth sectors (de Melo et al. 1996). Growth of the newer sectors will, however, come to outweigh the decline of the older sectors over time (Berg et al. 1999). Kornai, for example, argues that the 'transformation recession' may be a product of better signalling after prices are freed and changes in industrial structure due to privatisation and the emergence of new enterprises. Increased enterprise efficiency and/or more bankruptcies would also have an impact (Kornai 1994).

Dislocation of input supplies. Collapse of the previous systems of production can also drive output collapse. As markets and trade are liberalised, producers of valued goods have an opportunity to increase profits. Where previously they were locked into Soviet supply chains, in the new situation they can redirect their sales to the most profitable markets. This is positive for the individual firm because it can increase income and profits, but it also has negative consequences on the wider the scale because manufacturers who are unable to access their usual inputs will be forced either to arrange alternative suppliers or retrench production (Williamson 1993).

This can go beyond a problem of mere opportunistic redirection of inputs to non-traditional buyers; other observers see problems arising in the coordination of production.² This is particularly important given the complex, and often highly specified, supply relationships in Soviet production processes. In the transition, the organisational mechanisms of central planning have already collapsed, but the organisational mechanisms of a normal market economy are not yet available. Thus de Melo et al. (1996:402) note that 'output declines from disruptions in the coordinating mechanism...sudden abolition of planning in a highly complex, highly interdependent economy can impair economic coordination'. This is echoed by Kornai (1994:47), who argues that 'there is a curious no-man's land where bureaucratic coordination no longer applies and market coordination does not yet apply, and economic activity is impeded by disintegration, lack of coordination and anarchy'. In a way, these authors seem to prefigure one of the key insights into the transition recession—Blanchard and Kremer's (1997) disorganisation theory.

Input and disorganisation. Blanchard and Kremer (1997) refer to the disorganisation that occurs when the traditional Soviet-era supply chains collapse and a decentralised system emerges, and the wider effects this can have on production. Their argument is really an extension of Kornai's (1994) theory, but seeks to explain why the output collapse was so much larger than anyone anticipated. They argue that supply relationships under central planning were 'highly specific'. By this they mean that most firms had only one option for the supply of any particular output, and only sold their finished product to one particular buyer.³ The potential for inefficient monopolistic selling or monopsonistic buying practices is enormous, but is constrained in the central planning system by 'the coercive power of the central planner' (Blanchard and Kremer 1997:1093). In the transition, the central planner is eradicated, but the monopsonistic/monopolistic markets remain, leading to economic instability. Because firms in the Soviet economy had 'highly specific' supply relationships, problems at one end of the supply chain were communicated along the supply chain. In these circumstances, if a components supplier at the bottom of the supply chain collapses, any firm that relies on this particular supplier will also falter. Similarly, if a finished goods manufacturer fails, its highly-specialised input suppliers will also be put in trouble. Liquidity problems at one part of the chain would spread along the chain (thus, partly explaining the explosion of barter trade in post-Soviet supply networks).

Two important issues need to be noted here. Given that Soviet production processes were characterised by this specificity, most manufacturers were endangered by problems

in the Soviet economy. However, producers of goods that could readily be redirected to other markets could insulate themselves from this effect simply by establishing alternate trade links. In practice, this turned out to be raw materials producers—those at the very bottom of the supply chain.

Second, the break-up of the Soviet Union exacerbated this situation. Where production had previously crossed republican borders, it often became impossible or impractical to continue. Firms could not produce because their major supplier or customer was now in another country; and goods had to be imported and/or exported subject to customs duties, predatory customs inspectors, collapsing transport networks and impossible conditions for international payments.⁴

Credit crunch. Calvo and Coricelli (1993) tentatively argued the importance of tight credit as an explanation of output performance. They argued that reforms introduced positive real exchange rates and removed the 'lender of last resort' role played by the central banks in the socialist economy, but left the banking system weakly developed (Calvo and Coricelli 1992). Enterprises could no longer access credit to underpin their transactions with other enterprises and became unwilling to engage in trade on the basis of credit. They were able to offset this to some extent by using up inventories, accumulating inter-enterprise arrears and/or decreasing wages, but they could not completely offset the collapse in willingness to trade among enterprises—a situation that led ultimately to a 'trade implosion' (Calvo and Coricelli 1993). Similarly both Kornai (1994) and Winiecki (2000) indicate that the fall in investment during transition was a major factor in the fall of output. Kornai (1994) attributes this to a breach between the removal of government subsidies to enterprises and the development of private investment in productive activities (mostly due to the lack of facilitating institutions). Winiecki (2000), on the other hand, argues that the fall in investment is a positive development because it eliminates the over-investment of the Soviet period. At some level, however, the fall investment surely must become excessive—rates of investment in fixed capital in Kazakhstan for example were for much of the 1990s less than one-fifth their 1991 value, in other Central Asian republics and the CIS on average they were around one-third their 1991 value (Goskomstat Rossii 2000).

3.2.4 Other explanations

Institutional factors. Economists have become more aware of the importance of institutions to underpin economic activity. Institutional economists argue that a complex set of institutions had developed in the Soviet economies which facilitated, however inefficiently, economic outcomes. The collapse of Soviet political and economic structures destroyed the old institutional structure, but the emergence of a new structure would necessarily take time because individuals and organisations are not able to adapt immediately to the new 'rules of the game'. Uncertainty makes it difficult and costly for economic agents to operate in the new circumstances. Transactions in particular become fraught or near impossible because of the uncertain underlying legal environment, and output collapses as a consequence. Schmieding (1993) argues, however, that this will be temporary—people will adapt to the new situation, and economic activity will recover as they adjust. Similarly, North comments that the

demise of Communism [in Eastern Europe] in 1989 reflected a collapse of the perceived legitimacy of the existing belief system and consequent weakening of the supporting organizations. The result was the destruction of most of the formal institutional framework, but the survival of many of the informal constraints...The relative success of policy measures...in the Czech Republic compared to Russia resulted from the heritage of informal norms from the pre-communist era that made for the relatively harmonious establishment of the new rules in the former country (North 1997).

The collapse can be more prolonged if governments manage to remove the old institutional structure but prove unable to impose a new one, or impose one that has poor incentives. Absent or poorly functioning market institutions raise the expected costs of transaction, and at some point the costs can become so great that transactions are inhibited.⁵ In this regard, Kornai (1994) has pointed out that the transition economies have lacked the institutions necessary for the smooth functioning of a market economy, particularly in the financial sector (Kornai 1994). Kolodko (1999) similarly highlights a wide range of institutional lacks, particularly in the financial/commercial sphere, that have contributed to poor outcomes in the transition economies. A lack of formal institutional strength, in terms of protecting property rights *inter alia*, can moreover become self-perpetuating by generating a situation that stifles general growth of the private sector but benefits a group of politically-connected individuals and organisations, who then fight further institutional change (Moers 2002; Umarov and Mahmudshoev 2001).

Statistical illusion. Statistical mismeasurement may account for part of the apparent output collapse. Some economists argued that, under the central planning system, enterprises had an incentive to overstate production in order to gain favour among political superiors. After the transformation process had begun, however, these same firms would have an incentive to understate production in order to minimise the amount of tax they would have to pay (Åslund 1994, Kuboniwa and Gavrilencov 1997, World Bank 1996, Williamson 1993). As Jan Winiecki (1991) writes, '[o]nce enterprises begin to depend on what they sell rather than write to their superiors, a few percentage points of 'output that was not' disappear from the statistics—that is, from the only place they existed'.⁶ Again, however, this cannot explain differences in performance between Eastern Europe and the CIS and is highly unlikely to explain the scale of the collapse in Central Asia or almost anywhere else in the transition region.

3.2.5 Output collapse and the role of reform

Economists have devoted considerable effort to establishing a link between reform approach and renewed growth, mostly based on cross-regional econometric analyses. Thus, economists such as de Melo et al. (1996), Åslund et al. (1996), Berg et al. (1999), Hernandez-Cata (1997), among many others, have argued that rapid and radical reform are associated with strong subsequent economic performance.⁷ The merits of reform are undeniable, and reform is obviously important, but Chapter 6 will demonstrate that *within Central Asia* differences in reform approach between the republics have had little influence on economic performance.

3.2.6 Summary

The output contractions were one of the most astonishing developments in the transition economies, and arresting them came to dominate government attention and serve as a

indicator of success in transition. The transition period was one of highly complex change; demand was clearly shifting rapidly and supply problems beset the region's industries. The institutional structure also collapsed, rendering economic transactions more uncertain and more difficult. It would be foolish, therefore, to try to identify a single reason for the output contraction. As should be clear from this discussion, none of these explanations are exclusive, and economists have tended in their studies to point to a range of different factors to explain output performance in transition economies. Chapter 6 will look at the output fall in the Central Asian economies and apply these theories to explain its trajectory. It will argue that specialisation within Soviet production networks, combined with the disorganisation theory and the collapse of Soviet trading and production networks, explain most but not all of the variation in output performance in Central Asia.

3.3 INFLATION AND ITS CAUSES

Inflation reached truly enormous levels in the early post-Soviet period in all the transition economies, adding to the sense of economic chaos in the region at the time. This section reviews the major relevant causes of inflation in the former Soviet Union, concentrating on monetary overhang, the Rouble Zone and monetary expansion through fiscal deficits. Again, these explanations are not necessarily exclusive, but it should also be noted that there has been far less disagreement on the causes of inflation in the region than on the output collapse. This is probably because the causes of inflation are more explicable using standard economic theory than were the causes of output collapse.

3.3.1 Monetary overhang

Monetary overhang, a product of pre-transition policies, refers to a situation in which the amount of money held by consumers was more than would be appropriate given the quantity of goods and services available to consumers in that economy. With price controls in place, however, prices could not rise to reach an equilibrating level (Ofer 1990; Nuti 1986; Dąbrowski 1999). Where an imbalance of this kind would necessarily have provoked a bout of corrective price shifts in market economies, this corrective inflation was repressed by the maintenance of price controls on most goods in the command economies. A once-off adjustment was expected to occur when these price controls were lifted to erase the monetary overhang (Wachtel and Korhonen 2003).⁸

3.3.2 The Rouble zone

The newly independent former Soviet republics began to adopt their own national currencies in 1993. Prior to this, however, they were members of the Rouble Zone, and continued to use the Soviet, and later the Russian, Rouble as their currency. In theory the Rouble Zone members met to set parameters for monetary policy within the zone, but in practice the Central Bank of Russia dictated the conditions for monetary policy and each republican central bank ignored these conditions. In practice, the republican central banks were in a position to issue credit as they saw fit, and the Central Bank of Russia was obliged to honour this.⁹

When the Central Asian republics became independent, the strong flows of transfers from the all-Union budget to the republics were severely cut. The new republics had to

find a new way source of finance if previous levels of government activity, and national trade, were to be maintained. Thus, the republican banks took to issuing credit to cover government spending as a substitute for the earlier flows. This, as Odling-Smee and Pastor (2002) note, was a classic free-rider problem. The benefits to the individual member country from issuing excessive credit—subsidised industry, artificially high levels of output and social services—were isolated to that country, but the costs, namely, inflation, were spread across all member countries. The unrestrained growth of the money supply allowed by this arrangement had serious consequences in lowering the real value of the Rouble in domestic and external markets (Sachs 1994; Oruzbaeva 2000; Illarionov 1995, 1996).

The introduction of independent republican currencies meant that this form of subsidy and monetary expansion was brought to an end. Thus, Illarionov (1995:12) notes that transfers from the Central Bank of Russia had fallen to negligible levels (0.1 per cent of a rapidly declining Russian GDP) by 1994, having previously been equivalent to 8.2 per cent of Russian GDP in 1992 and 3.0 per cent in 1993. As we shall see, inflation was, in most cases, brought under control pretty rapidly once the Rouble Zone collapsed. Where it was not, the explanation usually lies in the normal processes of monetary expansion—increased velocity of money and expansion of the money supply (Sachs 1997b).

3.3.3 Velocity of money

The velocity of money refers to the speed with which money is circulating in a particular economy and is a measure of the demand for a currency in the domestic market. This money demand reflects people's confidence in money as a store value and a medium of exchange. Therefore, if people lose confidence in money as a store of value, they will seek to exchange it rapidly for assets that hold value more reliably, and the demand for money will fall. In Western economies, the velocity of money is assumed to be fairly constant over time, but in the transition economies this is less likely to be true. The theory proposes that people lost, or never had, confidence in the usefulness of domestic currencies and sought to transfer their assets to more concrete goods or into more reliable external currencies such as the US Dollar or the Deutsche Mark. Thus, the velocity of money is supposed to have increased during the initial transition period as people sought to exchange their domestic currencies for foreign currencies or assets (Sachs 1996).¹⁰

3.3.4 Monetary expansion

The inflationary impetus was substantially derived from expansionary monetary policy, which was itself a product of policies during the transition. This, in turn, was caused by the extensive fiscal and quasi-fiscal deficits that were a striking characteristic of most transition economies.

Fiscal deficits. The widespread perception has been that growth in the money supply in the transition economies has been driven by pervasive government deficits. Because governments throughout Eastern Europe and the former Soviet Union were faced with severe declines in tax revenue but were unable or unwilling to make equivalent

reductions to expenditure, deficits were often unavoidable in these countries. These deficits were largely financed by expansion of the money supply (ie. printing money), which induced a decline in the real value of the currency. While this seems a likely explanation, the evidence is not as strong as would be expected. This is because some ways of financing deficits are far more inflationary than others (as noted by Komulainen and Pirtillä 2000).

Typically, there are three ways of financing budget deficits. These are

- borrowing from abroad—either directly or by obtaining aid-based easy credit from foreign states, multinational or non-governmental organisations, or through releasing government bonds
- borrowing domestically by issuing government bonds
- borrowing money from the central bank (ie. printing money) (Dornbusch 1992).

In the early transition period, these options were further limited. Given underdeveloped capital markets and financial systems, and the perceived instability of the new governments, there was little chance of successfully financing entire budget deficits through releasing government bonds either domestically or externally.¹¹ Initially, there was simply no confidence in the new governments' capacity to repay funds borrowed in this way, because there was no demonstrated history of an ability or willingness to repay or even to manage government debt remotely effectively. Indeed, there was no guarantee that the first wave of post-communist governments would be able to retain control, nor was there any confidence that the previous dictatorial regimes would not regain control and refuse to honour these commitments. At the same time, the ability to finance budget deficits through releasing government bonds was constrained by the absence of developed domestic banking and financial systems in the transition economies. In most developed economies the banking sector is the sector that holds most government bonds, so the issuance of government bonds would have to come after the emergence of a private banking sector in any particular economy.¹² In the longer term, when financial sectors had developed to some extent, the release of government bonds was possible in many transition economies, and almost certainly contributed to lowering monetary expansion and inflation (Wachtel and Korhonen 2003).¹³

The second most favourable option was to borrow funds from foreign sources. All the countries of Eastern Europe and the Former Soviet Union could hope to receive some credit on easy terms from multinational organisations and foreign states, but in practice some countries benefited more from this than others. The resources available for this were obviously finite, and were far more limited than some Western economists had hoped.¹⁴ Furthermore, such loans usually had conditions attached that some states found unacceptable. Ultimately, foreign loans, whether in the form of foreign purchases of government bonds, or direct foreign loans from unilateral or multilateral sources, were a useful if limited source of finance for post-Soviet governments (see Illarionov 1995, 1996).

Unable to restrain deficits, and unable to access finance to fund these deficits, most of the transition economies were compelled to take other measures. Typically, they were forced to finance deficits by borrowing directly from the Central Bank; that is, by printing money (Illarionov 1995, 1996). The inflationary consequences of this are well-known (Commander 1992)—the money supply increases by more than growth in

output, which means that the real value of the currency falls, and this manifests as an increase in prices as sellers demand more money for any given good. Monetised deficits contributed to alarming expansions in the money supply, driving the inflationary surge.

Quasi-fiscal operations. This, however, does not explain the entire situation. As Cottarelli and Doyle note, '[t]here are cases where fiscal strengthening did not accompany inflation stabilization. In Estonia, Latvia and Turkmenistan, the fiscal position prior to stabilisation was already fairly strong, and other factors underlay persistent inflation in that context' (Cottarelli and Doyle 1999:17). That is, some countries, which were apparently quite sound fiscally, nonetheless experienced quite severe inflation. Turkmenistan is probably the most egregious example of this (see Chapter 6). In these cases, inflation was driven by at least two alternative sources of monetary expansion commonly known as quasi-fiscal operations:

- government and para-governmental spending not reported in the budget
- directed cheap credit issued by the central bank to favoured sectors and enterprises.

Malgorzata Markiewicz (2001) neatly summarised quasi-fiscal operations as politically-motivated activities involving

- 1 subsidised lending (at below market rates) to both governmental and private organisations
- 2 financial controls (such as foreign exchange controls and credit ceilings)
- 3 rescue operations, such as transfers to commercial institutions that hold bad loans to failing enterprises (Buiter 1997; Markiewicz 2001).¹⁵
- 4 maintenance of reserve requirements for commercial banks that are not compensated by market interest rates (Markiewicz 2001; Buiter 1997)
- 5 a range of activities related to exchange rate controls.¹⁶

Such quasi-fiscal operations occurred to some extent in almost all the transition economies, but were particularly severe in some cases, such as Turkmenistan (Illarionov 1995; Dabrowski 1999). The important thing about quasi-fiscal operations is that they do not appear in the government budget, even though they represent politically-determined government subsidies to favoured firms or sectors. They nonetheless can be significant contributors to monetary expansion and hence inflation.

3.3.5 Conclusion: what caused the inflation?

The literature described above raises a number of potential causes of inflation. Clearly monetary overhang and the rouble zone were factors early in the transition process. Their contributions, however, can only extend so far. Monetary overhang was erased by the initial price liberalisation, whereas the influence of the rouble zone extended until about 1995, by which time most of the Central Asian republics had left the arrangement (see Chapter 4 for more details). This means that the major lasting factor was expansion of money supply through fiscal and quasi-fiscal deficits.¹⁷

Governments' ability to restrain deficits, and to find non-inflationary sources of finance, was a critical determinant of inflation performance. Those countries that eliminated deficits or were able to avoid monetising deficits performed far better than those that could not. Chapter 6 will discuss this in detail with respect to the Central Asian economies.

NOTES

- ¹ See also World Bank (1996) and Åslund (1994). Econometric evidence is provided by Fischer et al. (1996:61) who find that 'the CMEA collapse and the breakup of the Soviet Union had a major negative impact on growth', and Christoffersen and Doyle (2000), who find that export market growth was an important determinant of output recovery.
- ² For example, Kornai (1994); World Bank (1996); de Melo et al. (1996); De Broeck and Kostial (1998).
- ³ This, in turn, is reminiscent of Leijonhufvud's (1993) early criticism, in which he writes 'many large plants depend on a single, or at least dominant, supplier for some of their raw materials or intermediate inputs and, similarly, have one dominant customer. If one such gigantic plant ceases to operate, others are left without supplies or customers. Failure in one part of the system, therefore, can cascade through a large part of it. Such failures are now occurring on a large scale and, in my judgement, constitute the most intractable part of the current crisis...' (1993:121).
- ⁴ On international payments difficulties, see Schoors (2003:9), who notes that '[p]ayments to the CIS were settled slowly and unreliably or became impossible. Compared to this, payments to third countries were relatively simple and fast'.
- ⁵ In this light, Brunetti et al. (1997) tentatively conclude that the reliability of the institutional framework is an important factor in growth outcomes in transition economies.
- ⁶ See also Wing Thy Woo (1994); De Broeck and Kostian (1998).
- ⁷ The most influential of these studies have been quite usefully summarised in World Bank (2002b).
- ⁸ Using the classic Fisher equation expression of this balance, $MV=PQ$, where M is the money supply, V is the velocity of circulation of money, P is the prices of goods, and Q is the quantity of goods available in the economy, a monetary overhang is a situation in which $MV>PQ$ for some reason. In a market economy, where prices are not fixed, $MV>PQ$ would be brought back into equilibrium by either a rise in the quantity of goods or, more often, a rise in the price of goods. This is essentially what happened in the transition economies with the initial inflationary surge—prices rose to reflect the stock of money in the economy.
- ⁹ Although, as Schoors (2003) points out, the CBR was uncooperative and just as undisciplined as the republican banks. For a more general discussion of Rouble Zone's development and collapse, see Odling-Smee and Pastor (2002), and also Pomfret (2002c) and Granville (2002) for alternative points of view. Another earlier analysis of the complexities of the Rouble Zone is provided by Pomfret (1995).
- ¹⁰ Anderson and Citrin (1995:50) counter this by arguing that 'while for a few countries it is easy to point to direct factors that could have caused a decline in real money demand, for most others there is no obvious explanation'. They go on to point out that inflation was not generally associated with the introduction of new currencies, nor indeed with 'earlier accelerations in monetary expansion'. Finally, they conclude that 'the relationship between inflation and exchange rate behaviour in these countries does not suggest that shifts in money demand in favor of foreign currency were significant in explaining increases in inflation and velocity' (Anderson and Citrin 1995:50).
- ¹¹ This is discussed by Dabrowski (1999).
- ¹² In practice, this development was constrained initially by the lack of a legal framework for such activities, and the need to dismantle the monobank system, through allowing entry of foreign firms and *de novo* domestic banks and privatising or corporatising sections of the previous banking system. Any domestic banks would need to accumulate a reasonable deposit base before it could begin trading to any useful degree in government bonds. Of course, the ability to amass a reasonable deposit base was hampered by the fact that most people's savings from the Soviet era were effectively rendered worthless by the initial inflationary correction associated with the monetary overhang, and the ongoing inflation would then have dissuaded most people from holding their money in savings accounts—for which real interest rates were often negative—instead of assets.
- ¹³ Daniel Treisman, for example, notes that Russia was able to bring inflation under control in 1995, despite quite expansionary fiscal and credit policies. He argues that it was able to do so because 'the government and the central bank agreed...to reduce the bank's crediting of the budget deficit, substituting *government securities* and foreign borrowing' (Treisman 1998:245; emphasis added).
- ¹⁴ Jeffrey Sachs was the most vocal and prominent advocate of massive overseas aid flows. See Sachs (1993).
- ¹⁵ Markiewicz (2001:10–11) describes this as 'infusion of capital into a troubled institution, assumption of non-performing loans, or exchange rate guarantees'.
- ¹⁶ See Markiewicz (2001) for a more comprehensive and detailed assessment of quasi-fiscal operations, and Rosenberg and Zeeuw (2001) for a discussion of the quasi-fiscal nature of Uzbekistan's exchange rate regime.
- ¹⁷ See de Melo (1996) for econometric evidence for this assertion.

4 ECONOMIC REFORM IN CENTRAL ASIA

Following on from the discussion of theories of transition in Chapter 2, this chapter will discuss progress on key features of the ideal transition program in the Central Asian republics. It will discuss progress in each republic on liberalisation of prices, trade, the exchange rate, wages and employment, and will also consider progress in privatisation and the development of an institutional and governance framework for a market economy. As readers will recall from Chapter 2, these represent the basic elements of the ideal transition program, with the exception of macroeconomic stabilisation, which will be discussed in Chapter 6.

4.1 REFORM IN CENTRAL ASIA

The region's governments have followed different reform paths. Kazakhstan and Kyrgyzstan have generally pursued more aggressive reform strategies, liberalising prices and trade rapidly, privatising both large and small-scale economic entities, and withdrawing subsidies from most forms of economic activity. Uzbekistan and Turkmenistan followed the opposite approach, adopting far more cautious and gradual reform strategies. This is not say that these countries have not reformed at all, but that they have been more restrained in liberalising prices and trade, have been slower to privatise state assets, and have retained far more extensive government subsidies in key sectors. Tajikistan was also slower to reform initially but has recently renewed reforms with vigour. This delayed approach to reform was less a product of strategy than of the impossibility of introducing and enforcing extensive reforms during a civil war.¹

4.1.1 Comparative reform paths

Central Asia's advanced reformers are Kazakhstan and Kyrgyzstan where, according to EBRD indices, considerable progress has been made on price liberalisation, trade and privatisation of small-scale enterprises (see Appendix Table 4.1). Tajikistan has belatedly made progress on these aspects of transition but lags behind the leading countries in the extent of its reforms. These countries have all adopted to a large extent the typical transition program advocated by Western economists and the international financial organisations (see Chapter 2), freeing almost all prices, liberalising trade and exchange rates, and making progress on privatisation of most state assets.

Turkmenistan and Uzbekistan have chosen different strategies, preferring instead to retain controls on some prices, limit access to foreign exchange, and move cautiously in privatising state assets. The Uzbek and Turkmen governments have also chosen to

retain extensive government and para-governmental subsidies to key groups and economic sectors, ostensibly to prevent worsening poverty and social and economic upheaval. Not coincidentally, however, these policies also serve to concentrate power and wealth on the ruling élite.

The Central Asian republics as a group fall behind the advanced reformers of Eastern Europe and the Baltics in what we might call the foundations or facilitating formal institutions of a market economy. There are many aspects of this area of economic reform, but the next section will present the European Bank for Reconstruction and Development's annual indices of competition policy reform, banking sector reform, and non-bank financial institution reform as indicators specifically of the economic institutional environment in each Central Asian republic. In addition, the broader range of governance indicators provided by Kaufmann et al. (2003) will be presented to gauge the wider political and regulatory environment for market economic activity in each republic.

Summarising the EBRD indices, however, it is clear that Kazakhstan and Kyrgyzstan trail behind the advanced reformers of Eastern Europe. Tajikistan in turn has made less progress than Kazakhstan and Kyrgyzstan, and Uzbekistan and Turkmenistan still less. It is arguable in this light that the bulk of the difference in reform progress between the leading Central Asian reformers and Eastern Europe lies in institutional aspects of reform in terms of both the establishment of formal institutions and the enabling environment for market activity more generally. The Kaufmann et al. (2003) indicators cannot be so easily summarised as they consider a far wider range of factors, but they suggest considerable differences even within Central Asia in the institutional and governance framework.

4.2 KAZAKSTAN

4.2.1 Liberalisation

Prices. Price liberalisation in Central Asia was basically dictated by the price liberalisation program adopted by the Russian Federation on 2 January 1992, as the Central Asian republics were still highly integrated with Russian economy, despite their nominal independence. Thus, price disparities between Russia and the Central Asian republics would probably have led to massive flows of goods across borders to those areas where prices were highest (*Financial Times*, 2 January 1992; Reuters, 2 February 1992). The Russian price liberalisation freed prices on just about everything, except for staples such as bread, milk, salt and vodka, as well as services, transport, and fuel, and prices on these goods were increased towards the market level (*Reuters News*, 1 January 1992).

Following the Russian lead, Kazakhstan undertook price liberalisation at the same time, deregulating prices of most goods and services, except for key products, including power, heat, coal, oil, gas, bread, flour, salt, sugar, housing rents.² Prices for these remaining goods increased towards the market level over the following years, so that by the end of 1994, nearly all prices were free except for utilities prices, which remained heavily subsidised (EBRD 1995).³ Prices in Kazakhstan are, therefore, basically free.

Exchange rate. Until November 1993, Kazakhstan remained within the Rouble Zone, a coalition of countries using the old Russian rouble. The Rouble Zone proved unworkable over the long term, however, with severe cash shortages appearing in Kazakhstan in 1992 (*Moskovskiy Novosti*, 24 July 1992). The Kazak government was extremely reluctant to break with the Russian-controlled Rouble Zone for purely political reasons—it did not want a wider crisis to emerge both between Russia and Kazakhstan or within Kazakhstan between the Russian and non-Russian populations. Thus, it persisted with the Rouble Zone, even going so far as to issue its own currency alongside the Rouble to ease the supply problems in 1992 (*BBC Monitoring Service: Former Soviet Union*, 5 August 1992). In October 1992, Kazakhstan signed, with seven other CIS republics, an agreement to establish an Interstate Bank to manage the Rouble issue within the Zone, and in June 1993 Nazarbaev was still denying rumours that a new national currency would be introduced. That July, Kazakhstan participated in the chaotic Rouble re-issue and later signed a further agreement with five other CIS nations to keep the Rouble as common currency.⁴ In late 1993, however, the situation seems to have become untenable to the Kazak government owing to problems with the supply of the new Roubles.⁵ The Tenge was introduced on 15 November 1993, with a brief window for people to convert their old Roubles into the new currency, and now operates under a managed float.

Trade. A decree removing restrictions on foreign trade was promulgated early in the transition period. Under the new system, most of the restrictions on foreign trade were lifted, and all citizens were allowed to hold foreign currency bank accounts (*Ekonomika i zhizn'*, 3 February 1992). The decree also assigned to the government sole control over exports of some types of fuel, such as natural resources, mineral fertilisers, grain, cotton, wool and other strategically important goods (*BBC Monitoring Service: Former USSR*, 7 February 1992).

The early years of the transition saw severe taxes on export profits in hard currency and mandatory sale of a proportion of hard currency revenues to the National State Bank of Kazakhstan.⁶ These were cut on many major products in March 1996, and the range of exports requiring government permission was reduced considerably at the same time to just sensitive military and nuclear materials as well as wild animals and plants (*Reuters News*, 25 March 1996). Kazakhstan was accepted as an observer to GATT in September 1992, but has been unsuccessful so far at acceding to the WTO (Bukharbaeva 2003).

Wages and employment. The Soviet era liberalisation of wages and employment was outlined in Chapter 2. In Kazakhstan, this was carried further with enactment of the Law on Employment of the Population 1991 (EBRD 1995), which essentially completed the liberalisation of wage and employment conditions. The government, in theory, retains control over setting the minimum wage, but workers have the right to determine freely their place of work and seek higher wages.

4.2.2 Privatisation

There were three basic stages to the privatisation process: (1) housing privatisation, often based on a coupon system and for no charge, (2) mass privatisation using a coupon system; and (3) case-by-case privatisation for cash (Brill Olcott 2002).

Housing and small-scale privatisation. Housing privatisation began in 1991 (*Novecon*, 4 September 1992). A coupon system was used, under which all citizens were issued with a number of coupons, and most housing was privatised to the occupants. Privatisation of small-scale enterprises also began in 1991 with selected businesses, mostly in the service sectors, privatised in cash auctions and voucher sales (EBRD 1998). Progress was very rapid, and the government was able to declare the program complete in 1997 (Table 4.1).

Medium-scale and large-scale privatisation. The so-called ‘mass privatisation’ program was initiated in 1993, beginning the process of privatising medium and large-scale enterprises. It initially sought to divest the state of majority holdings in most businesses predominantly under a voucher system. Under the voucher system, citizens holding vouchers would lodge them with special investment privatisation funds, which would then use them to purchase shares in privatising companies. In any specific company, the majority of the shares would be available for the voucher auction, with the balance reserved for the firm’s workers and managers and the government (see Brill Olcott 2002). The voucher sales were to be completed well before the end of 1995, but the deadline was extended until December 1995 because public scepticism about the process meant that they were slow to lodge their vouchers with the funds (Brill Olcott, 2002; EBRD 1995; *Ecotass*, 25 July 1995). That said, progress was quite swift, though slower than the small-scale privatisation program.

Privatisation of the largest enterprises has been on a case-by-case basis, and has proved considerably more difficult than that of small-scale enterprises, which has meant that the program has dragged into its second decade (Brill Olcott 2002; EBRD 2003; Table 4.2). It has also been more difficult because of the sensitive nature of the firms involved—very large firms tend to be concentrated in the industrial sector, particularly manufacturing, and consequently employ greater proportions skilled workers. Manufacturing has been the sector most harshly affected during the transition, so the government has had to balance the conflicting objectives of privatising industry and the unemployment that threatens as a consequence. These firms, as Olcott (2002) points out, also tended to maintain a variety of social services and assets for their employees, which made privatisation still more difficult.

Table 4.1 Share of small-scale enterprises privatised, 1992–97

	Per cent of total
1992	..
1993	27.3
1994	41.7
1995	60.0
1996	79.5
1997	100.0

Source: European Bank for Reconstruction and Development, various years. *Transition Report*, EBRD, London.

Table 4.2 Privatisation, Kazakhstan, 1994–2002

	Before									
	1994	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total units privatised	9269	4147	3143	4056	6777	3073	2318	1724	2205	1823
Of which										
Small-scale	5578	2748	2477	3393	5590	2535	2187	1642	2059	1756
Mass privatisation	..	..	147	497	1122	516	131	79	146	67
Case-by-case	..		5	28	47	13	0	3	4	2
Agriculture	..	918	513	138	18	9	4	0	25	10
Sectoral breakdown										
Industry		211	48	437	608	152	26	26	39	34
Construction		110	52	45	162	50	16	5	10	5
Agriculture		918	514	138	18	9	4		25	10
Transport		180	28	101	331	73	147	50	n.a	n.a
Trans and comm.									13	17
Trade and catering		1394	1358	1519	1279	287	141	69	11	4
Personal and public services		587	337	280	689	169	74	54		
Others		747	806	1536	3690	2267	1855	1470	2107	1753

Source: International Monetary Fund, 2003. *Republic of Kazakhstan: selected issues and statistical appendix*, Country Report 03/211, International Monetary Fund, Washington, DC. International Monetary Fund, 1998. *Republic of Kazakhstan: recent economic developments*, Country Report 98/84, International Monetary Fund, Washington, DC.

Agricultural sector. In the agricultural sector, agricultural organisations were rapidly privatised from the beginning of the transition period. A range of ownership forms was allowed ranging from private holdings to private collective or cooperative organisations, or formation of joint-stock companies. The most common forms of privatisation were into private peasant farms, followed by formation of industrial cooperatives. The privatisation of agricultural land itself has, however, been somewhat more difficult and controversial. In June 2003, after considerable political manoeuvring between the executive and the parliament, a new Land Code permitting the privatisation of land was passed by the parliament and signed into law by President Nazarbaev (*Novecon*, 27 June 2003; Aibasov 2003; Zhikor 2003; *Interfax Central Asia News*, 27 June 2003).

4.2.3 Institutions

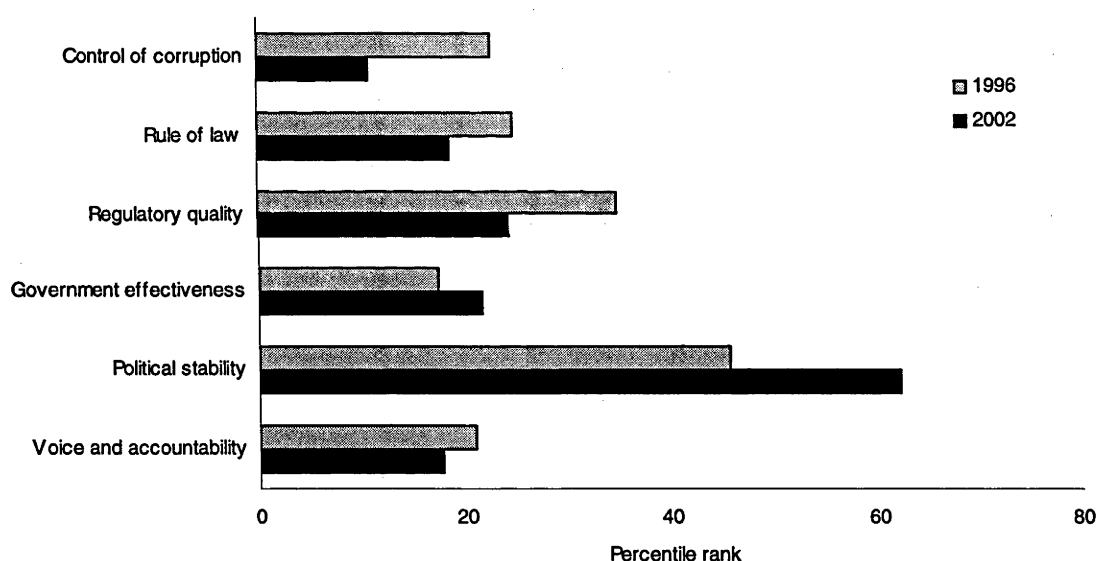
In terms of formal institutions, Kazakhstan moved quickly to establish a legal basis for a market economy by enacting laws permitting private enterprise and trade, establishing bankruptcy laws, and establishing a central bank. In this sense, the formal components of a market economy have been in place for some time. Where Kazakhstan lags, however, is in the enforcement, or the credibility of these institutions.

Figure 4.1, derived from Kaufmann et al. (2003) provides a rough overview of institutional development during the transition. The Kaufmann et al. (2003) formulation takes into account both formal/legal advances and results in practice, looking at such factors as regulatory quality, government effectiveness and rule of law. These are important because they can directly affect the potential cost of transactions. What their study indicates is that many of the political and economic institutional underpinnings of

a mixed market economy are not developing in the way that they perhaps should. Thus, Kazakhstan remains among the world's worst performers in controlling corruption (see also Brill Olcott 2002), rule of law, government effectiveness and regulatory quality. Furthermore, the situation appears to have deteriorated over recent years in many cases. In some respects, this may be beyond government power—the government set up an Agency for Combating Economic Crime and Corruption in 2003, for example, but it has not yet proved very effective and appears to be fighting a hopeless battle given the incentives to corruption and economic crime in the region. In other respects, however, the government directly undermines public confidence in some institutions for its own political gain. This will be discussed further in Chapter 5.

The EBRD's more specific indicators of institutional development indicate that Kazakhstan is quite advanced compared to other Central Asian republics in developing foundational economic institutions—good competition policy and banking and non-bank financial sectors (Table 4.3). At the same time, these factors remain underdeveloped when Kazakhstan is compared with Eastern European reformers.

Figure 4.1 Institutional change, Kazakhstan, 1996–2002



Note: The percentile rank is the percentage of the world's countries ranked lower than Kazakhstan.
Source: Kaufmann, D., Kraay, A. and Mastruzzi, M., 2003. *Governance Indicators for 1996–2002*, World Bank, Washington, DC. Available online at <http://www.worldbank.org/wbi/governance/wp-governance.html>.

Table 4.3 EBRD indices of institutional development, Kazakhstan, 1995–2003

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Index of competition policy	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Index of banking reform	2.0	2.0	2.3	2.3	2.3	2.3	2.7	2.7	3.0
Index of NBFI reform	1.7	1.7	1.7	2.0	2.0	2.3	2.3	2.3	2.3

Source: European Bank for Reconstruction and Development, various years. *Transition Report*, EBRD, London.

Does this matter? As discussed in section 2.3.5, these institutional factors are what we might call the 'rules of the game'. They determine how costly, or how viable, it is for people to engage in transactions within the economy. If people have to negotiate corrupt practices, or provide their own security to guarantee transactions, or are operating in uncertain regulatory or legal environment, the riskiness to them of engaging in business will be higher. At some point, the costs of operating in this environment will become so high that most transactions will become unviable: people will either cease transacting or will retreat into private, informal networks based on trust (Ericson 2002). On the other hand, underdeveloped financial institutions can mean that willing entrepreneurs are unable to access finance effectively, thus limiting their capacity to engage in economic activity.

Thus, the answer is yes, it does matter. The apparent institutional regression between 1996 and 2002, in which factors such as control of corruption, rule of law and regulatory quality have deteriorated, can have economic impacts by increasing the cost, and hence reducing the viability, of transactions. This is especially important among individuals and smaller enterprises, who are less able to private substitutes when public institutions are absent. This, of course, will be compounded when the formal institutions of a market economy, such as a functioning financial sector, remain underdeveloped.

4.3 KYRGYZSTAN

4.3.1 Liberalisation

Prices. The Kyrgyz price liberalisation was similar to that in Kazakhstan in that the Kyrgyz government was forced to liberalise prices in reaction to the Russian liberalisation program. Price controls remained on some essential goods, but these were slowly eliminated through the 1990s. Economic crisis precipitated in 1993 a reintroduction of some measures, including control over profit margins and prices in some sectors, and state procurements at prices below the market level (Dabrowski and Antczak 1995). This, however, proved temporary and the process of liberalisation soon revived. Bread prices were finally freed in November 1994, and prices for other essential goods were gradually lifted towards market levels. Prices are now essentially free.

Exchange rate. The problems with the Rouble Zone outlined in Section 3.3.2 prompted Kyrgyzstan to become the first Central Asian republic to introduce its own currency, the Som, on 10 May 1993 (*BBC Monitoring Service: Former USSR*, 11 May 1993). The Rouble was phased out days after the introduction of the new currency. The government sought initially to fix the som-dollar exchange rate, but the disparity between official and black market rates soon become too great, and full convertibility was introduced in March 1995 (*Novecon*, 20 July 1993; EBRD 1995).

Trade. Trade liberalisation, though not entirely successful, was initiated in the USSR in the second half of the 1980s (see section 2.3.2). A decree in April 1992 further liberalised trade, ostensibly permitting all businesses to engage in trade without special registration. License arrangements were retained, however, for exports and imports, and bans kept in place on exporting or importing sensitive goods, including grain.

International trade was further opened up in the second half of the 1990s when the Kyrgyz government removed most of the remaining licensing requirements on exporters, reduced the range of export taxes considerably, and reduced import duties (*Novecon*, 3 August 1998; EBRD 1995). After considerable further liberalisation, Kyrgyzstan joined the WTO on 24 September 1998, the first CIS country to do so (*Novecon*, 24 September 1998).

Wages. Following on substantial wage and labour market liberalisation within the Soviet Union, Kyrgyzstan pursued further liberalisation during the 1990s. The government officially retains control over the minimum wage, and wage levels in the state sector, but the labour market is totally unregulated beyond this level. The government removed residency restrictions (*propiski*) early in the reform process, allowing citizens to live where they choose, but it has continued an extensive system of resident registration, which can determine access to social services (see Bernabé and Kolev 2003).

4.3.2 Privatisation

The privatisation process was initiated in 1992, and has run through a number of stages. Various different methods of privatisation were adopted, based on the type of business being privatised, including cash auctions, direct sales to individuals or workers collectives, competitive bids, and transformation into a joint-stock company (Jermakowicz and Panków 1995).⁷ By 1999, the government had apparently divested itself of 65.9 per cent of the enterprises slated for privatisation in 1991, with the majority of privatisations taking the form of conversion to joint-stock companies (25.9 per cent), competitive sales (18.1 per cent), sales to individuals (20.6 per cent), and sales to collectives (23.1 per cent) (Ibadolgu 2001).

Voucher privatisation. A voucher system was introduced in 1992 to complement the privatisation process. All Kyrgyz citizens received a voucher whose value was determined by the recipient's wage and length of employment. These vouchers could then be used to purchase housing, shares in enterprises and joint-stock companies, or other privatising enterprises.

Small-scale enterprises. Enterprises of different scales (ie. small, medium, large) were all sold from the beginning of the process. Privatisation of small-scale enterprises proceeded most rapidly, but this represented only a small proportion of economic activity in the republic (Jermakowicz and Panków 1995). These enterprises were typically sold to collectives, individuals, or in 'competitive bidding' situations. Privatisation of 'trade and catering' and 'consumer services', sectors dominated by small-scale enterprise, is now nearly complete (see Table 4.4).

Larger-scale enterprises. Larger enterprises were almost all transformed into joint stock companies, with a proportion of the shares being distributed within the company to management and collectives and 25 per cent of shares being reserved for the voucher privatisation program (Jermakowicz and Panków 1995). While the Kyrgyz government has made considerable progress in privatising larger enterprises, the pace has slackened and some remain to be privatised (State Committee on the State Property of the Kyrgyz Republic 2004). As Table 4.4 shows, after initial flurries in 1992–93, privatisation has essentially stopped in construction, transport and the key sector—agriculture.

Table 4.4 Privatisation progress, Kyrgyzstan, 1991–2002 (units sold, cumulative)

Sector	Initial stock for privatisation	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Per cent completed
Industry	602	9	118	264	324	462	484	523	527	532	540	542	545	90.5
Consumer services	1919	94	1344	1840	1877	1897	1912	1917	1933	1933	1935	1936	1936	100.9
Nonproductive sphere	1253	2	5	27	225	409	426	433	453	496	531	547	561	44.8
Trade and catering	1945	60	905	1631	1750	1799	1867	1882	1891	1896	1905	1913	1913	98.4
Agriculture	855	0	59	233	320	343	353	358	359	362	367	368	370	43.3
Construction	730	5	80	233	318	391	413	418	420	425	429	430	430	58.9
Transport	295	0	18	80	101	134	141	159	163	165	167	167	170	57.6
Others	2390	4	31	149	269	451	586	665	780	867	960	1019	1057	44.2
Total	9989	174	2560	4457	5184	5886	6182	6355	6526	6676	6834	6922	6982	69.9

Notes: Data for 2002 are end-August figures. The data here are drawn from two sources issued by the same organisation. Where the figures do not coincide, the lower figure has been used.

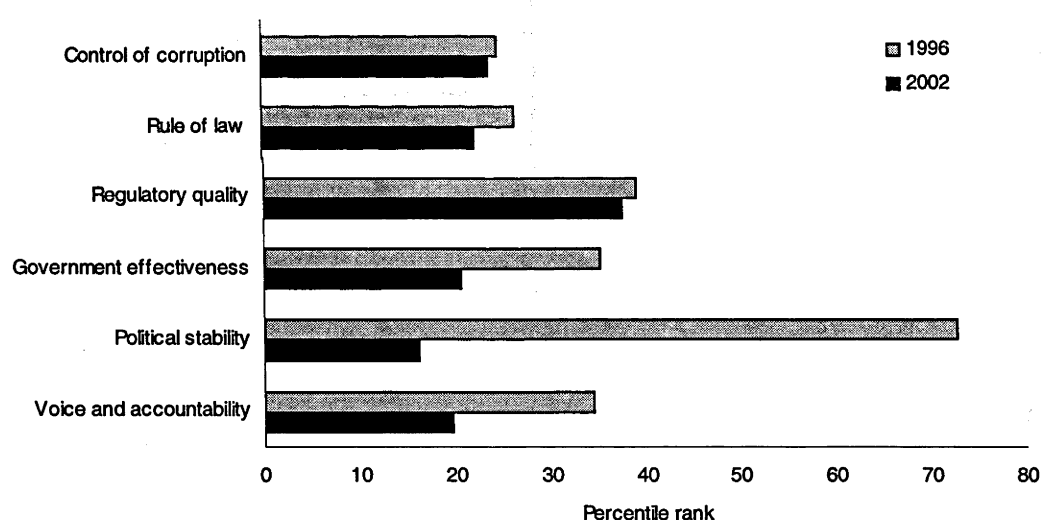
Source: International Monetary Fund, 1998. *Kyrgyz Republic: recent economic developments*, Country Report 98/08, International Monetary Fund, Washington, DC. International Monetary Fund, 2003. *Kyrgyz Republic: selected issues and statistical appendix*, Country Report 03/53, International Monetary Fund, Washington, DC.

4.3.3 Institutional change

Kyrgyzstan rapidly introduced legal changes to underpin its economic reform, such as a bankruptcy law, civil code and a banking law. Again, however, the institutional environment is influenced more by flawed implementation of institutional reforms and the flouting of elements of the institutional framework for personal and/or political aggrandisement. Figure 4.2 provides the Kaufmann et al. (2003) indicators of institutional change in Kyrgyzstan during the transition. As noted above, these indicators should be treated with great caution as the error bounds are significant. They do, however, point to a stagnation in the formal institutional context of the transition economy.

Factors critical to the efficient functioning of a market economy—control of corruption, the rule of law and regulatory quality—have not really improved since early in the transition period. The EBRD indicators of formal institutional development show similar stagnation. While some progress has been made, Kyrgyzstan remains behind Kazakhstan—and considerably behind the advanced Eastern European reformers—in introducing well-structured banking and non-bank financial sectors (Table 4.5). As with Kazakhstan, these indicators suggest difficulties in doing business in Kyrgyzstan. The formal institutional framework remains weak, with financial sector development

Figure 4.2 Institutional change, Kyrgyzstan, 1996–2002



Note: The percentile rank refers to the percentage of countries in the world ranked lower than Kyrgyzstan. Source: Kaufmann, D., Kraay, A. and Mastruzzi, M., 2003. Governance Indicators for 1996–2002, World Bank, Washington, DC. Available online at <http://www.worldbank.org/wbi/governance/wp-governance.html>.

Table 4.5 EBRD indices of institutional development, Kyrgyzstan, 1995–2003

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Index of competition policy	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Index of banking reform	2.0	2.0	2.7	2.7	2.3	2.3	2.3	2.3	2.3
Index of NBFi reform	1.7	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0

Source: European Bank for Reconstruction and Development, various years. *Transition Report*, EBRD, London.

retarded, poor competition policy, and an underdeveloped regulatory framework. This is compounded by growing corruption, which imposes increased costs and uncertainty on transactions and business more generally, and poor legal enforcement, which means that traders have little recourse to the law when faced with illegal practices. Together, these factors serve to increase the costs and risks of doing business, a burden which falls disproportionately on small businesses and individuals.

Indices of political institutions also imply negative developments since 1996—both ‘political stability’ and ‘voice and accountability’ have deteriorated. This might be somewhat biased by the events in Aksy District in March 2002, but seems generally to fit with political trends in the country over recent years. A fuller discussion of the deteriorating political scene in Kyrgyzstan is presented in Chapter 5.

4.4 TAJIKISTAN

The Tajik case is clouded somewhat by the civil war there from 1992 to 1997. The government sought to introduce fairly radical economic reform and proposed sweeping liberalisation and privatisation in its Economic Reform Programme 1995–2000.⁸ Ultimately, however, the civil war distracted policymakers and limited the government’s capacity to both implement and enforce reform. Thus, Tajikistan is a case of postponed or delayed liberalisation.

4.4.1 Liberalisation

Prices. As with the other republics, Tajikistan was essentially compelled by the Russian price liberalisation of 1992 to free up most of its prices. Some prices, however, such as those for bread, milk, rents and public transport, remained controlled. The government initiated a series of price rises for many of these goods to bring them closer to market prices⁹ before removing controls on them during 1995–96.¹⁰ This left only a small group of important goods and services—the most important of which were water, electricity, fuel, transportation—still subject to price controls (EBRD 1996, 1997), and these prices were adjusted on occasion.¹¹ The government ceased state orders and freed prices for cotton in 1996, the last good that remained under the control system, thus essentially completing the price liberalisation. It did, however, retain controls on charges for communal services, such as electricity and water as well as some transport, but has periodically adjusted these over the years.

Exchange rate. Tajikistan was the last CIS republic to abandon the Russian rouble, introducing its own currency, the Tajik Rouble, on 10 May 1995, having earlier eased currency controls.¹² The new currency initially operated under a floating exchange rate regime heavily restricted by Central Bank control over foreign currency operations, which, inevitably, led to a black market for currency.¹³ A new re-based currency, the Somoni, was introduced in October 2000, with the Tajik Rouble remaining legal tender until April 2001 (*Associated Press Newswires*, 31 October 2000). The exchange rate regime is now a managed float.

Trade. Trade liberalisation in Tajikistan was substantially delayed until 1995. In 1995, the government abolished quota and license requirements for all but six key goods, of which cotton fibre and aluminium were the most important.¹⁴ The state’s monopoly on

exports of particular goods was also abolished, except for cotton sales (EBRD 1995), and the highly onerous surrender requirements for foreign currency earnings were first eased, then removed, in 1996 (EBRD 1996). Tajikistan has sought to join the WTO, and is currently working with a group of other CIS countries to negotiate a joint accession.

Wages. The 1994 constitution establishes certain freedoms with respect to labour, in particular the right to work and to choose one's profession or job. The government, in theory, retains only the right to set the minimum wage, and other limitations on labour relations are forbidden.¹⁵ In practice, the government has little capacity to enforce minimum wage levels, and indeed has often been responsible for significant wage arrears to its own employees.¹⁶

4.4.2 Privatisation

Privatisation has followed a similar pattern to that seen in Kazakhstan and Kyrgyzstan; it has been most aggressively pursued in the predominantly small-scale sectors (such as trade and catering, and services) and slowest in the predominantly large-scale sectors such as industry, construction and transport (Table 4.6). Although the process began quite early, the civil war meant that economic reforms were a low priority through 1992–1995.¹⁷ The Economic Reform Programme 1995–2000 envisaged privatisation of all small-scale enterprises by the end of 1997 and of all large-scale enterprises by 2000. This proved somewhat ambitious, however, as enterprises were still being privatised in 2001, albeit at a slower rate,¹⁸ and a Strategic Privatisation Plan 2002–2004 was released in July 2002 that outlined privatisation of more large enterprises, including the railways, the national airline and the Tursunzade aluminium smelter—the single most important enterprise in Tajikistan.¹⁹ A further privatisation program was released in late 2003 that outlined the privatisation program up to 2007, including the 'denationalisation' of all medium and large-scale enterprises by that date.²⁰

Small-scale and housing privatisation. Privatisation of housing and small-scale enterprises began in 1991, but enterprise privatisation moved slowly until the Economic Reform Programme was introduced in 1995. Small-scale privatisation is nonetheless now nearly complete, with the predominant method being sales to outsiders and

Table 4.6 Privatisation progress, Tajikistan, 1991–99

	Initial stock of state- owned units	Per cent privatised, cumulative									
		1991	1992	1993	1994	1995	1996	1997	1998	1999	
Industry	318	0.3	4.1	4.4	5.3	8.5	13.5	19.2	29.6	37.7	
Construction	422	0.2	2.6	2.8	3.3	3.8	5.0	5.7	10.0	17.3	
Trans and comm.	167	0.0	4.2	4.8	4.8	7.8	9.0	12.6	18.0	27.5	
Trade and catering	2546	0.7	8.4	9.3	12.3	19.0	30.7	43.8	62.3	87.1	
Services	2200	0.5	23.2	25.2	34.3	41.1	52.1	60.2	75.5	88.8	
Agriculture	491	0.0	0.2	0.4	2.2	3.3	6.5	18.7	46.6	87.0	
Other	1252	0.0	0.8	0.8	2.4	3.4	8.9	18.7	38.8	67.4	
Total	7396	0.4	10.4	11.3	15.5	20.3	29.1	38.8	55.8	76.8	

Source: World Bank, 2001. *Tajikistan: towards accelerated economic growth*, Report No. 22013-TJ, World Bank, Washington, DC.

employers. The housing privatisation was more rapid, and the majority of dwellings had been privatised by 1993 (EBRD 1995). By the end of 2003, the government claimed to have privatised 7,501 real estate properties and 222,000 apartments.²¹

Medium and large-scale privatisation. Although initiated at the same time as the small-scale privatisation program, the larger-scale privatisation programs have not moved as quickly. The most common process of privatisation of large-scale enterprises has involved initial restructuring of the enterprise into a joint-stock company followed by open auction of a controlling stake in the company, which is obviously a fairly involved and time-consuming process. In most cases, both domestic and foreign investors could participate in privatisation auctions.²² Privatisation of a number of cotton gins starting in 1999 was a particularly important step in that it addressed privatisation of large-scale enterprises in a highly sensitive sector.

Agricultural sector. The Law on Land Reform, issued in April 1992, provided for liberalisation of the agricultural sector by providing individuals and collectives lifetime leases of land and devolving production choices to private individuals or collective groups (*Novecon*, 18 May 1992). The law, however, specifically did not provide for private ownership of land. Since then, agricultural privatisation has generally been through hand-over to collectives or the formation of joint-stock companies (EBRD 1995).

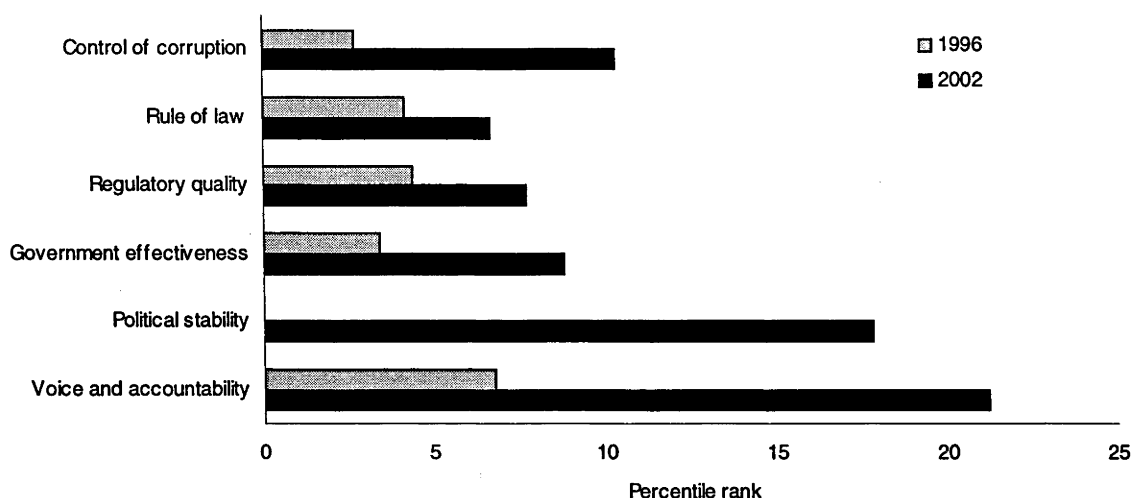
4.4.3 Institutions

Tajikistan introduced a range of laws to provide the legal institutional basis for economic activity in the early years of the transition period—for example, a Central Bank Law (December 1991), a Bankruptcy Law (March 1992), and Competition Law (1993). More broadly, the governance indicators formulated by Kaufmann et al. (2003) show considerable development of economic institutions between 1996 and 2002 (see Figure 4.3). This should not be surprising: in 1996, the civil war was still dividing the country and economic institutions were basically absent. Since the peace settlement was concluded in 1997, conditions have been far more conducive to the development of good governance and functioning institutions.

Indices of ‘control of corruption’, ‘rule of law’, ‘regulatory quality’ and ‘government effectiveness’ implied an exceptionally poor economic institutional environment in Tajikistan in 1996. While these indices suggest considerable improvement by 2002, they still place Tajikistan as one of the poorest institutional environments for economic activity in the region (only Turkmenistan comes close). The EBRD indices also point to relatively underdeveloped economic institutions in terms of competition policy and the banking and non-banking financial sectors (see Table 4.7). Politically, the situation has stabilised and there is, according to the Kaufmann et al (2003) indices, far more scope for ‘voice and accountability’. Chapter 5 will discuss aspects of this in more detail.

It should be noted, however, that these measures are very prone to error, and in Tajikistan in particular the measures of things such as rule of law and control of corruption are starting from an extremely low base. Nonetheless, the poor institutional framework is a characteristic of the Tajik economy at present (Umanov and

Figure 4.3 Institutional change, Tajikistan, 1996–2002



Note: The percentile rank is the percentage of countries in the world that ranked below Tajikistan.

Source: Kaufmann, D., Kraay, A. and Mastruzzi, M., 2003. Governance Matters III: governance indicators for 1996–2002, World Bank, Washington, DC. Available online at <http://www.worldbank.org/wbi/governance/wp-governance.html>.

Table 4.7 EBRD indices of institutional development, Tajikistan, 1995–2003

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Index of competition policy	2.0	2.0	2.0	2.0	2.0	2.0	1.7	1.7	1.7
Index of banking reform	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.7	1.7
Index of NBFI reform	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

Source: European Bank for Reconstruction and Development, various years. *Transition Report*, EBRD, London.

Mahmadshoev 2001), and the lack of reliable financial networks, as well as properly functioning legal and regulatory systems, makes it difficult for entrepreneurs to operate and probably hampers economic activity more generally.

4.5 TURKMENISTAN

4.5.1 Liberalisation

Prices. Most prices were liberalised in early 1993, but price controls remained on 473 kinds of goods (EBRD 1995). This was reduced to around 40 goods in November 1993, and prices of the remaining controlled goods were increased towards the market level.²³ Further reductions in the range of goods subject to price controls were enacted through 1995–96, but controls were retained on the prices of bread, meat, baby food, sugar, milk, heating and housing (Larichev 1996). Procurement prices on cotton and wheat remained in place at levels considerably below the world price, at times causing supply difficulties (*Reuters News*, 13 January 1997). The government removed controls on the prices of butter, milk, meat and fodder in the second half of 1996, but retained control

over the price of flour, bread, cotton oil, rice sugar, utilities, communal services, rents, petrol, transportation and building materials. Niyazov removed all charges for electricity, gas and water in September 1992, and repeatedly pledged not to reinstate them before 2020 (*Reuters News*, 27 September 1992; *Interfax Central Asia News*, 15 August 2003, Niyazov n.d.).

Although Turkmenistan has removed controls on most prices, it has been far slower to do so than Kazakhstan or Kyrgyzstan. It retains controls on a far wider range of goods than either of these countries, and unlike them continues blanket full subsidies on key utilities. As a result, an extensive criminal economy has developed to smuggle under-priced products to more lucrative markets elsewhere, which, along with the trafficking of drugs from Afghanistan, provides an attractive sideline for poorly paid workers and officials. Together, these factors have reportedly served to draw large sections of the bureaucracy into criminal activities, and certainly provide plenty of scope for corruption.

Exchange rate. Suffering, like the other Central Asian republics, from the difficulties of staying within the rouble zone, Turkmenistan introduced its own currency, the manat, on 1 November 1993 (*Reuters News*, 29 October 1993). Government management of the exchange rate meant that the official rate quickly diverged from the black market rate, and three different exchange rates now exist: official, commercial and black market. The commercial rate represents an intermediate rate, in theory available to some specific groups, between the fixed official rate and the true black market rate. The commercial rate has repeatedly been devalued to reflect more closely the black-market rate, and the official rate has also been devalued on a number of occasions.²⁴ The government attempted to unify the exchange rates in April 1996, but this proved unsustainable as the value of the manat continued to slide.²⁵ The government has repeatedly imposed restrictions on currency exchange since the introduction of the manat, usually in response to shortfalls in US dollar reserves.²⁶ A 20 per cent tax on purchases of foreign currency was removed in December 1999 (*Interfax*, 22 December 1999).

Trade. Foreign trade remains heavily state-dominated. The government issued a decree in August 1994 that forced all export transactions to be conducted through a centralised State Commodity and Raw Material Exchange.²⁷ Furthermore, it imposed a mandatory 100 per cent surrender requirement for all foreign currency export earnings in February 1992, but reduced the requirement to 50 per cent for state industries and 60 per cent for gas and oil exporters in February 1994. Non-state enterprises are exempt from the requirement.²⁸

In June 2000, Niyazov banned Turkmen citizens from operating bank accounts abroad, and required all foreign currency earnings to be repatriated to Turkmenistan.²⁹ In October 2002, Niyazov introduced another law that stipulated transactions made in hard currency between Turkmen and foreign companies had to be approved by him, the head of the Central Bank, and one other figure (*Prime-TASS News*, 16 October 2002). He later decreed that all hard-currency accounts be under the direct control of the Central Bank.³⁰ Imports and exports still require a special license or approval by the Cabinet or president.

The purpose of these bureaucratic impositions is clearly to serve personal and domestic political ends by extracting rents from the natural resources sector and redistributing them to various groups. The problem is that they curtail severely the incentives to engage in trade on the one hand, while driving underground any activity that remains.

Wages. Niyazov frequently issues decrees adjusting the minimum and average wages in the state sector, which, given the high proportion of workers still employed in this sector, have an economy-wide impact. Officially, there are no controls on private sector wages above the minimum level, but the government imposes a 50 per cent payroll tax on any wage payments above the state-determined average wage, countering any incentives for enterprises to pay above average wages.³¹ The government's control over wage rates, however, is made irrelevant by its inability to pay them—Turkmenistan continues to suffer wage arrears long after most other transition countries have managed to bring them under control, with a new round of non-payments breaking out in early 2004.

The labour market in Turkmenistan is still not quite free, with children being drafted to take part in the cotton harvest every year (*Reuters News*, 13 May 2004). Furthermore, Niyazov recently instituted a wide-ranging draft labour scheme, under which men up to 35 years old can be drafted to provide labour on state projects for two-years in return for food and accommodation, but no pay (*Defense and Security*, 6 September 2002; *BBC Monitoring Former Soviet Union*, 4 September 2002). University students have also been effectively drafted by Niyazov's educational reforms, which have altered the standard degree to a four year course comprising two years of study and two of labour.

The official reason for Turkmenistan's protracted liberalisation is to limit social and economic dislocation in the post-Soviet period, but its effect is to widen the scope for corruption and concentrate economic activity in the hands of a few government officials, over whom the populace find it difficult to assert discipline (see Chapter 5). At the same time, the objective of limiting social and economic dislocation appears unfulfilled—as Chapters 6 and 7 show, the post-Soviet period has been one of economic chaos and socio-economic collapse.

4.5.2 Privatisation

The Law on Privatisation and Denationalisation was adopted on 19 February 1992 and provided for privatisation through lease-purchase, collective buyouts, shareholder ownership and private ownership.³² The small-scale privatisation program has moved more rapidly than the large-scale privatisation program, but in truth neither has moved particularly quickly. It is not clear whether this is by design or complacency—President Niyazov explicitly repudiated rapid privatisation in the early years of the transition but later urged faster privatisation.³³

Small-scale. The privatisation of small-scale enterprises—those with less than 20 employees—began in December 1993. The initial aim was to privatise retail trade, public catering and communal enterprises in the first stage of reform.³⁴ The process was slow, with less than half of all small-scale enterprises privatised by the end of 1996. The predominant form of privatisation was through auctions to private individuals and also some sales to cooperatives.

Table 4.8 Privatisation of state enterprises, Turkmenistan, 1993–99

	1993	1994	1995	1996	1997	1998	Jan–Jun 1999
Consumer services	13	1003	201	45	1	1	2
Trade and catering	0	61	201	167	96	89	28
Manufacturing	0	0	0	2	3	16	22
Others	0	0	0	0	38	1	0
Total	13	1064	402	224	138	107	52
of which:							
small-scale	13	1064	401	219	97	91	30
large-scale	0	0	1	5	41	16	22

Source: International Monetary Fund, 1999. *Turkmenistan: recent economic developments*, Country Report 99/140, International Monetary Fund, Washington, DC.

Medium and large-scale. A limited privatisation of medium-scale enterprises took place in mid-1994.³⁵ A second stage of privatisation was introduced in December 1994 concentrating on privatisation of enterprises involved in manufacturing consumer goods or construction materials, processing agricultural products or transport.³⁶ Since then progress has been halting, but another round of privatisation, this time concentrating on industrial enterprises, with the exclusion of transport, oil and gas companies, was launched in March–April 1997. Some large-scale enterprises—that is, enterprises with more than 100 employees—have been transformed into joint-stock companies, but the predominant form of privatisation has been through auctions and tenders. Other enterprises were taken over by workers’ collectives. The government has thus far been unwilling to privatise enterprises in the oil and gas sectors.³⁷

Unfortunately, up-to-date data on privatisation in Turkmenistan is difficult to find. Table 4.8, while not completely up-to-date, gives some indication of the privatisation dynamic in Turkmenistan—the government has privatised small-scale enterprises, particularly in the services sector, most rapidly, but little privatisation has occurred among large-scale enterprises.

Land ownership. Land remains the exclusive property of the state, but has been allocated on a leasehold basis to individuals and families. While this would seem likely to generate change in the farming sector, the production structure has changed little because farmers’ tenure is dependent on fulfilment of government-specified production targets, and this production is sold to government bodies at prices below world levels (Lerman and Brooks 2001; EBRD 1997).³⁸ In this case, the Turkmen authorities have the process precisely backwards, implementing change of ownership forms but leaving the incentives to farmers completely unchanged. As a consequence, the sector’s performance has not changed much.

4.5.3 Institutions

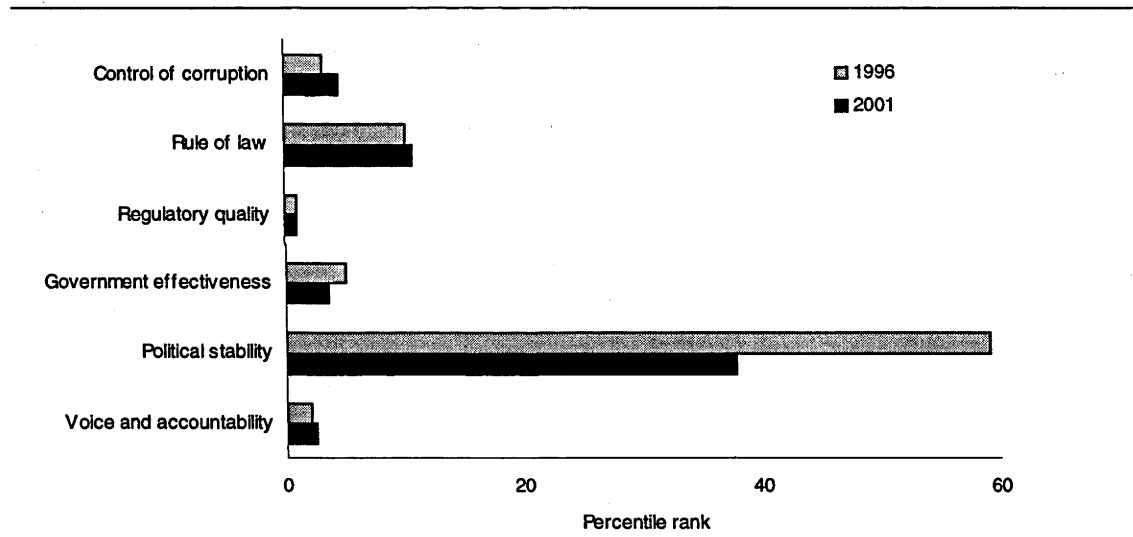
Not surprisingly, Kaufmann et al. (2003) find little evidence of institutional development in Turkmenistan. In fact, their indicators identify Turkmenistan as having among the worst institutional frameworks of all the economies in their study (Figure 4.4).

These indicators suggest a very poor economic institutional environment in terms of control of corruption, the functioning of regulatory bodies, and the legal institutions that would normally provide the basis for a market economy. The concentration of power with the president has rendered the bureaucracy impotent and completely subject to Niyazov’s vacillations, and the neutered judiciary does not provide an effective and objective legal framework. This is compounded by the state’s control over almost all aspects of the economy. Such control may be fine if the state is accountable, efficient and not corrupt, but the Turkmen state is none of these, so the control merely provides the means to concentrate the republic’s wealth in the hands a few.

The EBRD indices similarly point to a very poor institutional environment for market-based economic activity—among other things, the financial sectors remain severely underdeveloped (Table 4.9).

It is probably safe to say that virtually no institutional framework exists for a market-based economy in Turkmenistan at present. This may not be too important because Turkmenistan is only barely a market-based economy anyway given that government

Figure 4.4 Institutional change, Turkmenistan, 1996–2001



Note: The percentile rank is the percentage of countries in the world ranked worse than Turkmenistan.
Source: Kaufmann, D., Kraay, A. and Mastruzzi, M., 2003. Governance Matters III: governance indicators for 1996–2002, World Bank, Washington, DC. Available online at <http://www.worldbank.org/wbi/governance/wp-governance.html>.

Table 4.9 EBRD indices of institutional development, Turkmenistan, 1995–2003

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Index of competition policy	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Index of banking reform	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Index of NBFI reform	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

Source: European Bank for Reconstruction and Development, various years. *Transition Report*, EBRD, London.

monopolises the major economic sectors and interferes in all others. The political situation is considered stable, but the economic situation relies on the controlling influence of the government. Should the government fall or lose control, there will be a void in the institutional environment that will not easily be filled.

4.6 UZBEKISTAN

4.6.1 Liberalisation

Prices. Like the other republics of the former Soviet Union, Uzbekistan was compelled to liberalise prices by Russia's move to free prices in early 1992 (*Reuters*, 17 January 1992). The government resisted this, limiting for some time the price increases on many basic goods, presumably in reaction to the violent protests that broke out in Tashkent when initial price rises far outstripped increases in wages and student stipends. Price restrictions, however, prompted illegal exports of subsidised goods into neighbouring countries to take advantage of the higher prices there, eventually causing the government to raise prices, introduce tighter trade controls, and institute rationing for some consumer goods.³⁹ The rationing system was briefly dropped, then reinstated, in early 1995.⁴⁰

As of 2003, the government had liberalised most prices except those for essentials and strategic goods, such as sugar, flour, bread, butter, utilities, metals, cotton and some other goods.⁴¹ Alongside this, the Law on Restriction of Monopoly Activity, issued in September 1992, provides for regulation of minimum and maximum prices in a wide range of monopoly industries (*Ekonomika I zhizn'*, 8 September 1992; World Bank 2003a).

Thus, like Turkmenistan, Uzbekistan has resisted uncontrolled rapid liberalisation of prices, thereby following a somewhat different path to that of Kazakhstan and Kyrgyzstan.

Trade. Both external and internal trade are severely constrained by government policy. On the external side, there have nonetheless been a number of liberalisation moves, starting with a reduction in the number of goods subject to export licensing in 1994⁴² and the replacement of the state-run foreign trade monopolies with joint-stock companies in 1995.⁴³ This was complemented by steady reductions through the 1990s in the range and size of duties imposed on exports and elimination of bans on exports of some sensitive goods,⁴⁴ but the government still reserves for itself control over the export of agricultural commodities.

Importers are constrained by a number of factors. First, the authorities severely restrict access to foreign currency, such that, until the most recent round of liberalisation, only certain favoured businesses were licensed to purchase foreign currency, and even they faced restricted supply.⁴⁵ Second, the government has insisted that import contracts be registered and through this process has controlled the kinds of goods imported (EBRD 1997). Third, the government in 2002 imposed restrictions that force importers of consumer goods and pharmaceuticals to sell all imports to state-run distributors, who then resell them to retail outlets (*WRMC Daily Analysis*, 22 August 2002). Combined, these factors mean that the government controls and selects importers, the kinds of goods they import, and the distribution of their imports.

Internally, the government retains strong formal control over the agricultural sector, setting production targets and procurement prices, supplying inputs, and monopolising purchasing and marketing of agricultural goods.⁴⁶ The government's procurement prices, moreover, have typically been far below world market levels, despite occasional increases through the 1990s.⁴⁷ The sector has gradually been opened up, with cotton producers initially allowed to sell above-quota output privately (*Reuters*, 23 August 1994) and more recently to sell 50 per cent of their output at world prices but still through 'specialised trading companies' (*ITAR-TASS World Service*, 16 December 2002).

The government has also informally directed the economy by making access to domestic cash, foreign currency and inputs in some key industries conditional on membership of the relevant industry or trade association. The government dictates the approaches taken by, and resources supplied to, these organisations, thus maintaining a *de facto* command system in key sectors of the economy (World Bank 2003a).

Exchange rate. Like the other Central Asian republics, Uzbekistan initially sought to stay within the Rouble Zone, but introduced Sum coupons in November 1993 to ease the problems it created. These circulated alongside the rouble until the new currency, the Sum, was introduced in October 1994 (*Reuters*, 15 November 1993). Since then until quite recently, the government maintained an artificially high official exchange rate, limiting access to foreign currency and expropriating export earnings through a series of regulations and confiscatory exchange requirements.⁴⁸ A black market in currency rapidly developed, in which the Sum rate diverged considerably from the official rate through the 1990s (*Nezavisimaya Gazeta*, 28 May 1999). There were efforts at liberalising the exchange rate regime—and repeated promises to introduce full convertibility—through the 1990s, but these were typically reversed whenever Uzbekistan's external situation deteriorated (usually because falling cotton and/or gold prices reduced hard-currency export earnings).⁴⁹ The exchange rate system was liberalised slightly in July 2000, when importers and exporters were allowed to purchase foreign currency at the market rate, where previously they had to obtain a license (*Interfax: Banking and Finance*, 26 February 2004). And, in late 2003, liberalisation efforts culminated in an ostensible success when the government officially ended the restrictions on access to foreign currency and agreed to introduce full convertibility (*Agence-France Presse*, 26 October 2003). In practice, however, the situation has not changed: those not favoured by the regime still find it difficult to extract foreign currency from official exchange desks (*Economist Intelligence Unit* 2004; *Reuters News*, 10 March 2004).

Wages and labour. Wages have been liberalised, as in the other republics, but the government retains control over wage setting in the public sector and over the republican minimum wage. Private sector wage growth is restrained by a punitive tax regime on companies that allow wages to grow too much more quickly than output. While labour is ostensibly free, the Soviet practice of drafting labour for the cotton harvest continues, and workers, even school children, are rounded up every year in rural areas to help bring in the cotton, apparently for poor recompense (*Eurasianet.org*, 12 December 2002).

4.6.2 Privatisation⁵⁰

Housing and small-scale. The first tentative steps in the privatisation program were taken in 1992: after a few experimental housing privatisation efforts in Tashkent in late 1992, the government initiated a nation-wide program of housing privatisation in June 1993.⁵¹ These were predominantly sold, or in some cases given, to the occupants. At this time, the government was also privatising a number of small-scale enterprises, predominantly in the services sector, on a fairly ad hoc basis,⁵² generally by selling them to enterprise employees (Turaeva 2002). The government claimed that privatisation of service-sector enterprises and housing was almost complete by the end of 1993 (Table 4.10).⁵³

Medium and large-scale. Uzbekistan's approach to larger-scale privatisation has been more reserved than that of Kazakhstan and Kyrgyzstan. Uzbekistan eschewed the use of vouchers in its privatisation program, choosing instead to use tenders and auctions to sell packets of shares in various companies. This has meant that medium and large-scale enterprise privatisation has taken far longer in Uzbekistan than elsewhere.

President Karimov announced the beginning of this second stage of privatisation in January 1994 (*Reuters News*, 22 January 1994), allowing open auctions of state property for the first time. Most enterprises were transformed into joint-stock companies, with a significant portion of the shares reserved for employees and the state and the remainder auctioned (*BBC Monitoring Service: Former USSR*, 29 July 1994). The first rounds of auctions were held in March–April 1994 (*Reuters News*, 7 April 1994).

The government introduced the concept of Privatisation Investment Funds in 1996 to push the privatisation program along. The Privatisation Investment Funds—holding companies that could release shares to the general public—were to purchase shares in companies undergoing privatisation (Petzold and Markovicova 1998; Thoenes 1996, World Bank 1999b).⁵⁴ That is, individuals would not invest directly in privatising enterprises; instead, they would purchase shares in the Privatisation Investment Funds,

Table 4.10 Corporatised and partially privatised enterprises, Uzbekistan, 1992–98

	Number of state-owned enterprises prior to 1993	Cumulative privatisations					
		1993	1994	1995	1996	1997	1998
Small	52782	33577	40226	47435	48093	48868	49003
Medium	7059	600	3325	3499	4608	5033	5348
Large	4706	400	770	898	1046	1077	1078
Total	64547	34577	44321	51832	53747	54978	55429
Per cent of initial stock							
Small		64	76	90	91	93	93
Medium		8	47	50	65	71	76
Large		8	16	19	22	23	23
Total		54	69	80	83	85	86

Source: International Monetary Fund, 2000. *Republic of Uzbekistan: recent economic developments*, International Monetary Fund, Washington, DC.

which would use the finance thus raised to purchase shares in the privatising firms. Table 4.10 gives some indication of Uzbekistan's progress up to 1998 in denationalising its industrial sector; it does not, however, give any indication of the true extent of privatisation. World Bank analysts, for example, assert that only about 20 per cent of corporatised medium and large-scale enterprises had actually been fully privatised by 2003 (World Bank 2003a).

Since 1998, the privatisation program has continued on a case-by-case basis, alternating between setbacks prompted by lack of interest and excessively high starting prices and government-driven attempts to sell off, or be seen to be selling off, more enterprises (*Reuters News*, 15 December 1999). Recent years have seen moves to privatise assets in more sensitive sectors of the economy such as transport (Railways of Uzbekistan), banks, chemicals, and oil and gas.⁵⁵ Even the National Bank for Foreign Economic Activity of Uzbekistan and Uzbektelecom have been proposed for privatisation (*UzReport.com*, 7 July 2003; *Novecon*, 19 September 2003). Over 700 enterprises were reportedly privatised in 2001, 1,912 in 2002, and 1029 in January–September 2003 (*Novecon*, 23 January 2002; *UzReport.com*, 10 November 2003; *UzReport.com*, 30 January 2003).

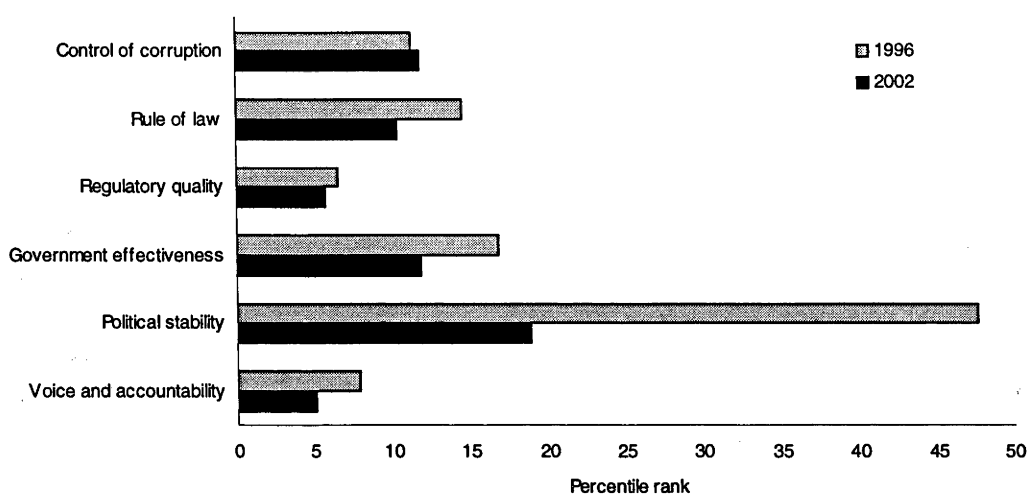
Agricultural sector. The government began reform in the agricultural sector in early 1993 by attempting to transfer control over less-profitable or loss-making farms to groups and individuals, predominantly collectives or farmers' associations.⁵⁶ As Ilkhamov (1998) points out, however, this merely transformed the soviet-era *sovkhozy* into *kolkhozy*, and the effect of this was to remove them from direct reliance on the state budget but leave the basic conditions of agricultural production unchanged. The *kolkhozy* then became privatised, generally as some form of collective enterprise (see World Bank 1999b, Kandiyoti 2002, Ilkhamov 1998).⁵⁷ Independent private farming is also possible, and the government has increased the amount of land available for this kind of farming, but restrictions remain on the amount of land private farmers can hold. Land itself has not been privatised, and all farmland remains leasehold. Officially, almost all agricultural production is now conducted by the non-state sector.⁵⁸

4.6.3 Institutional change

Formal institutional development is stagnant, and governance indicators indicate stasis in the overall institutional environment in Uzbekistan. Control of corruption, rule of law and regulatory quality all remain poor but are generally better than in Tajikistan and Turkmenistan. This, in many ways, is a function of both government regulation of the economy, which opens up the scope for corrupt practices, and excessive state power, which subverts the legal and regulatory framework (see Chapter 5). The institutional basis for economic development in the longer-term thus remains unclear, but, as with Turkmenistan, it is arguable that this matters very little because economic activity is so dominated by the government.

The EBRD indices also point to underdevelopment of formal economic institutions. Financial institutions remain retarded owing to the slow pace of government reform and its heavy-handed approach to economic matters generally, a situation which must make financing new enterprises quite difficult. That said, however, Uzbekistan seems more

Figure 4.5 Institutional change, Uzbekistan, 1996–2002



Note: The percentile rank refers to the number of countries in the world ranked lower than Uzbekistan. Source: Kaufmann, D., Kraay, A. and Mastruzzi, M., 2003. Governance Matters III: governance indicators for 1996–2002, World Bank, Washington, DC. Available online at <http://www.worldbank.org/wbi/governance/wp-governance.html>.

Table 4.11 EBRD indices of institutional development, Uzbekistan, 1995–2003

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Index of competition policy	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	1.7
Index of banking reform	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Index of NBFI reform	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0

Source: European Bank for Reconstruction and Development, various years. *Transition Report*, EBRD, London.

advanced than either Turkmenistan or Tajikistan, and basically on a par with Kyrgyzstan in this respect (Table 4.11). What this tentatively points to is a lack of institutional development towards those conditions perceived to underpin a market-based economic system. This is hardly a shock given that Uzbekistan's leadership has explicitly identified its priority as maintaining the old system while building the new system.

The only notable and significant change between 1996 and 2002 was the massive perceived decrease in political stability, most likely influenced by the bombings in Tashkent in 1999.⁵⁹ This, along with other aspects of post-Soviet Uzbekistan's political development will be discussed in more detail in Chapter 5.

4.7 CONCLUSION

It should be clear from this that the Central Asian republics have each adopted different programs in transition. Kazakhstan and Kyrgyzstan are the region's most advanced reformers, having adopted extensive price and trade liberalisation, the region's most aggressive privatisation programs, and extensive institutional reform and development.

Uzbekistan and Turkmenistan represent the opposite approach—the so-called ‘gradual’ reform approach. In these republics, some prices remain under state control, both exchange rates and trade remain more-or-less under state control, privatisation has proceeded slowly, and institutions remain poorly developed. Tajikistan represents an intermediate case: until 1997, the civil war prevented sustainable reform from taking place. Since 1997, however, considerable reform has taken place, leaving Tajikistan close to the region’s leading reformers in terms of liberalisation and privatisation, but a laggard in terms of institutional development.

The republics all suffer retarded institutional and governance development. This has been identified with weaker, or shallower, economic growth because the lack of institutions makes economic transactions riskier and more costly. The next chapter will extend this by discussing political developments in the Central Asian republics. Chapters 6 and 7 will then relate the reform approach adopted in each republic to economic and socio-economic performance to determine what role, if any, economic reform has played in this performance.

NOTES

¹ For example, the Tajik government’s Tajik Economic Reform Programme 1995–2000 called for a qualified, but nonetheless fairly aggressive, program of market-oriented reform. It remains relatively poorly implemented because the government lacks the capacity, and the country the resources, needed to sustain the reforms (Gleason 2001). The Tajik Economic Reform Programme 1995–2000 was published in *Narodnaya Gazeta* (19 August 1995) and appeared in translation in *BBC Monitoring Service: Former USSR*, 27 September 1995.

If proponents of radical reform were working with the correct definition, Tajikistan would have to be considered a radical reformer, as most of its reform progress has been made rapidly in the last few years (see, for example, Heybey and Murrell’s (1997) critique of the Optimal Speed of Transition (OST) literature, where they point out that the measure of liberalisation adopted in most of the literature, the Cumulative Liberalisation Index, is not a useful measure of reform speed).

² *Izvestiya*, 7 January 1992; reproduced in *BBC Monitoring Service: Former USSR*, 17 January 1992.

³ For example, the government increased the price of bread five-fold during 1992, but achieving the market price for bread would have involved a 15–20-fold increase (*Reuters News*, 21 September 1992).

⁴ On the Interstate Bank, see *Ekonomika I Zhizn’* (28 October 1992) and Schoors (2003). On Nazarbaev’s denials of the rumours, see *BBC Monitoring Service: Former USSR*, 2 June 1993. For other developments during this period, see also *BBC Monitoring Service: Former USSR*, 28 July 1993 and *Reuters News*, 7 September 1993.

⁵ Under the system envisaged, the Central Bank of Russia (CBR) was to be the sole issuing authority of the common currency. Kazak officials complained that the CBR would not release enough Roubles to Kazakhstan, and would not exchange the old Roubles accumulated in Kazakhstan for new Roubles (*Reuters News*, 27 October 1993; *Novecon*, 29 October 1993). See also Address to the Nation, President Nursultan Nazarbaev, Kazakh Radio, Alma-ata, 12 November 1993, reproduced in *BBC Monitoring Service: Former USSR*, 15 November; and Speech by Prime Minister Sergei Tereshchenko, Kazakh Radio, Alma-ata, 13 November 1993, reproduced in *BBC Monitoring Service: Former USSR*, 16 November 1993.

⁶ For example, 50 per cent in June 1992 (*Ekonomika I Zhizn’*, 3 June 1992).

⁷ This section draws extensively on Jermakowicz and Panków (1995), which provides a thorough discussion of the first stages of privatisation in Kyrgyzstan. The later stages of the program are considered in detail in Panków (2001).

⁸ An overview of the Economic Reform Programme was published in *Narodnaya Gazeta*, 19 August 1995, and reproduced in *BBC Monitoring Service: Former USSR*, 27 September 1995.

⁹ For example, prices of flour and bread, as well as electricity and heating, were increased in February 1993 (*BBC Monitoring Service: Former USSR*, 15 February 1993).

¹⁰ Bread and flour price controls, for example, were lifted in 17 August 1995. *Khovar* news agency, 17 August 1995; reproduced in *BBC Monitoring Service: Former USSR*, 19 August 1995.

¹¹ For example, electricity tariffs were increased in 1999. *ITAR-TASS*, 12 April 1999; reproduced in *BBC Monitoring Former Soviet Union—Economic*, 13 April 1999. And gas prices were lifted in July 2003 (*BBC Monitoring Central Asia*, 3 July 2003). Transport prices were increased in January 2004 (*ITAR-TASS*, 6 January 2004).

¹² *Interfax*, 20 February 1995; reproduced in *BBC Monitoring Service: Former USSR*, 24 February 1995.

¹³ See, for example, EBRD (various years) and *Interfax*, 24 July 1999.

¹⁴ *Interfax*, 20 February 1995; reproduced in *BBC Monitoring Service: Former USSR*, 24 February 1995.

¹⁵ Article 35, Constitution of the Republic of Tajikistan.

¹⁶ See, for example, *Khovar* news agency, 23 August 1995; reproduced in *BBC Monitoring Service: Former USSR*, 25 August 1995; *ITAR-TASS*, 18 November 2000.

¹⁷ *Tajik Radio*, 23 November 1993; reproduced in *BBC Monitoring Service: Former USSR*, 26 November 1993. *Neue Zürcher Zeitung*, 16 December 1993.

¹⁸ *Asia-Plus*, 24 July 2001; reproduced in *BBC Monitoring Central Asia*, 25 July 2001, 25 October 2001.

¹⁹ *Interfax*, 18 July 2002. See also, *Asia-Plus*, 12 July 2002; reproduced in *BBC Monitoring Central Asia*, 13 July 2002.

²⁰ *Asia-Plus*, 4 December 2003.

- ²¹ According to *Narodnaya Gazeta*, 79.6 per cent of the apartments were sold, 1.4 were transferred for partial payment, and 19 per cent were privatised free of charge. *Narodnaya Gazeta*, 11 March 2004; reproduced in *BBC Monitoring Central Asia*, 4 April 2004.
- ²² *Interfax*, 29 January 1999; reproduced in *BBC Monitoring Former Soviet Union—Economic*, 30 January 1999. See also *BBC Monitoring Former Soviet Union—Economic*, 16 March 1999, and *Interfax Food and Agriculture Report*, 15 July 1999, 8 June 2000.
- ²³ *Reuters News*, 1 November 1993. An almost total price liberalisation was meant to accompany the introduction of the new currency, the manat, but this was reversed when prices shot up rapidly (*BBC Monitoring Service: Former USSR*, 29 October 1993; *Reuters News*, 10 November 1993).
- ²⁴ For example, the commercial rate was devalued in May 1994, September 1994, December 1994, September 1995 (*Reuters News*, 4 May 1994; 'Russia' TV channel; reproduced in *BBC Monitoring Service: Former USSR*, 9 September 1994; *Reuters News*, 20 December 1994; *Reuters News*, 19 September 1995).
- ²⁵ *Interfax*, 7 April 1996; reproduced in *BBC Monitoring Service: Former USSR*, 12 April 1996. Turkmen Radio, 22 June 1996; reproduced in *BBC Monitoring Service: Former USSR*, 28 June 1996.
- ²⁶ This occurred, for example, in December 1998, when the government severely restricted the sale of hard currency to only people travelling abroad to receive medical treatment, students studying overseas, and businesspeople travelling overseas (*Interfax*, 2 December 1998; reproduced in *BBC Monitoring Central Asia*, 3 December 1998; *Novecon*, 4 December 1998).
- ²⁷ *Segodnya*, 15 August 1994.
- ²⁸ *Postfactum*, 29 January 1992; reproduced in *BBC Monitoring Service: Former USSR*, 7 February 1992. *Novecon*, 14 February 1994; Turkmen Radio, 12 March 1994; reproduced in *BBC Monitoring Service: Former USSR*, 21 March 1994.
- ²⁹ Turkmen State News Service, 15 June 2000; reproduced in *BBC Monitoring Central Asia*, 17 June 2000; *Dow Jones International News*, 26 June 2000.
- ³⁰ Turkmen TV first channel, 14 November 2002; reproduced in *BBC Monitoring Newsfile*, 15 November 2002.
- ³¹ *Novecon*, 7 February 1996; *International Market Insight Reports*, 23 April 1998.
- ³² *BBC Monitoring: Former USSR*, 21 February 1992; *Reuters News*, 20 February 1992.
- ³³ In March 1993, he announced 'We will not travel the path of uncontrolled mass privatisation...' (*BBC Monitoring Service: Former USSR*, 19 March 1993), but by January 1994 he was signalling the need for faster privatisation (*Reuters News*, 17 January 1994). He was again calling for the process to be accelerated in April 1997 (*BBC Monitoring Service: Former USSR*, 4 March 1997), but in October 2002 he returned to repudiating shock therapy and rapid privatisation (*Rossiskaya Gazeta*, 25 October 2002; reproduced in *BBC Monitoring Former Soviet Union*, 28 October 2002).
- ³⁴ *ITAR-TASS news agency*, 3 December 1993; reproduced in *BBC Monitoring Service: Former USSR*, 10 December 1993.
- ³⁵ *ITAR-TASS*, 20 May 1994.
- ³⁶ *ITAR-TASS*, 29 November 1994.
- ³⁷ *Prime-TASS Energy Service*, 16 October 2002.
- ³⁸ See also Lerman and Stanchin (2004) for a more detailed description of the process of transferring agricultural land tenure to a leasehold basis.
- ³⁹ *BBC Monitoring Service: Former USSR*, 12 February 1993, 26 March 1993; *Reuters*, 1 June 1993.
- ⁴⁰ A coupon system was in place for purchases of most goods for a long time (Mayak Radio, 24 Dec 1992; reproduced in *BBC Monitoring Service: Former USSR*, 1 January 1993). For discussion of the rationing system, see *Interfax*, 1 January 1995, 1 February 1995; reproduced in *BBC Monitoring Service: Former USSR*, 5 January 1995, 3 February 1995.
- ⁴¹ See, for example, World Bank (2003a); *Reuters News*, 2 August 2000, *East European Markets*, 12 May 1995; *BBC Monitoring Service: Former USSR*, 30 July 1993; *BBC Monitoring Service: Former USSR*, 31 July 1992; *BBC Monitoring Service: Former USSR*, 9 October 1992.
- ⁴² See, for example, *Torgovaya Gazeta*, 15 September 1995; *Narodnoye Slovo*, 14 October 1997; *BBC Monitoring Service: Former USSR*, 24 October 1997.
- ⁴³ *Interfax*, 15 August 1995; reproduced in *BBC Monitoring Service: Former USSR*, 18 August 1995.
- ⁴⁴ *Business Partner*, 27 June 1996; *BBC Monitoring Service: Former USSR*, 5 July 1996.
- ⁴⁵ *Moscow Times*, 8 July 1997. This was not just an idle regulation, it was an integral tool of government economic policy. In 2000, for example, the government revoked the foreign exchange licenses of a large number of enterprises because it was dissatisfied with their activities. In August 2002, the government abolished the licensing system but continued to insist on certification of imports. The impact of this liberalisation was somewhat blunted by a piece of legislation that requires all imported consumer goods to carry 'detailed labels in the Uzbek language' (*Narodnoye Slovo*, 21 July 2000; reproduced in *BBC Monitoring Central Asia*, 22 July 2000; *Interfax Central Asia News*, 22 August 2002; *Pravda Vostoka*, 21 August 2002; reproduced in *BBC Monitoring Central Asia*, 31 August 2002).
- ⁴⁶ See, for example, Ilkhamov (1998:540), who argues that '[a]s before, *kolkhozes* directly depend on the government, which continues to control credit resources, inputs (procurement of materials and equipment) and partly sales'. Kandiyoti (2002) also provides a summary of conditions and reforms in the agricultural sector up to 2002.
- ⁴⁷ *Novecon*, 28 April 1992; *WRMC Daily Analysis*, 22 August 2002.
- ⁴⁸ For a detailed analysis of the exchange rate regime prior to July 2000, see Rosenberg and De Zeeuw (2001).
- ⁴⁹ *Novecon*, 9 December 1995; *BBC Monitoring Service: Former USSR*, 24 March 1998.
- ⁵⁰ For an official summary of the privatisation program in Uzbekistan, see State Property Committee (n.d.). Turaeva (2002) provides an overview that, while sticking quite closely to the official line, discusses some of the problems that have emerged in the privatisation process.
- ⁵¹ *RIA news agency*, 1 February 1993; reproduced in *BBC Monitoring Service: Former USSR*, 5 February 1993. *BBC Monitoring Service: Former USSR*, 26 May 1993, 12 June 1993.
- ⁵² See, for example, *BBC Monitoring Service: Former USSR*, 27 November 1992, 5 March 1993, 25 June 1993.
- ⁵³ 'Privatization of Uzbekistan's consumer services virtually complete', APN Uzbekistan news agency, 4 November 1993, reproduced in *BBC Monitoring Service: Former USSR*, 12 November 1993; 'Housing privatisation programme in Uzbekistan almost complete', APN news agency, 9 December 1993, reproduced in *BBC Monitoring Service: Former USSR*, 17 December 1993. See also World Bank (1999b).
- ⁵⁴ See also, *Biznes-Vestnik Vostoka*, 29 August 1996; reproduced in *BBC Monitoring Service: Former USSR*, 13 September 1996.

- ⁵⁵ Symptomatic of the privatisation process as a whole, privatisation of the oil and gas company was postponed in early 2003 in favour of restructuring to make the firm more attractive to investors. *Interfax Central Asia News*, 3 March 2001; *Tashkentskaya Pravda*, 28 February 2001, reproduced in *BBC Monitoring Central Asia*, 7 March 2001; *Interfax*, 22 March 2001, reproduced in *BBC Monitoring Former Soviet Union—Economic*, 23 March 2001; *Interfax Daily Petroleum Report*, 18 May 2001; *UzReport.com*, 15 July 2002; *Reuters News*, 19 February 2003.
- ⁵⁶ *Interfax*, 8 January 1993; *BBC Monitoring Service: Former USSR*, 15 January 1993. *Khalq Sozi*, 20 January 1995; reproduced in *BBC Monitoring Service: Former USSR*, 10 February 1995.
- ⁵⁷ The actual relationship between individual farmers and the collective can take many different legal forms.
- ⁵⁸ A government official claimed in November 1997 that over 98 per cent of all agricultural production was in the non-state sector (*Biznes-Vestnik Vostoka*, 6 November 1997; reproduced in *BBC Monitoring Service: Former USSR*, 21 November 1997). Sceptical observers—for example, the World Bank (2003a) and the International Crisis Group (2004)—would argue that, while the sector is officially non-state, its production inputs are supplied by the state and its production targets are set by the state, so in practice it is not market-based either.
- ⁵⁹ The ratings for political stability plummeted in the 2000 assessment and improved slightly in the 2002 assessment (Kaufmann et al. 2003)
-

Table A4.1 EBRD transition indices

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Price liberalisation									
Kazakstan	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Kyrgyzstan	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Tajikistan	3.3	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Turkmenistan	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Uzbekistan	3.7	3.7	3.3	2.7	2.7	2.7	2.7	2.7	2.7
Foreign exchange and trade liberalisation									
Kazakstan	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Kyrgyzstan	4.0	4.0	4.0	4.0	4.0	4.3	4.3	4.3	4.3
Tajikistan	2.0	2.0	2.0	2.7	2.7	3.3	3.3	3.3	3.3
Turkmenistan	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Uzbekistan	2.0	2.0	1.7	1.7	1.0	1.0	1.7	1.7	1.7
Small-scale privatisation									
Kazakstan	3.0	3.3	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Kyrgyzstan	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Tajikistan	2.0	2.0	2.3	3.0	3.0	3.3	3.7	3.7	3.7
Turkmenistan	1.7	1.7	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Uzbekistan	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Large-scale privatisation									
Kazakstan	2.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Kyrgyzstan	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Tajikistan	2.0	2.0	2.0	2.0	2.3	2.3	2.3	2.3	2.3
Turkmenistan	1.0	1.0	2.0	1.7	1.7	1.7	1.0	1.0	1.0
Uzbekistan	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Enterprise reform									
Kazakstan	1.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Kyrgyzstan	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Tajikistan	1.0	1.0	1.0	1.7	1.7	1.7	1.7	1.7	1.7
Turkmenistan	1.0	1.0	1.7	1.7	1.7	1.0	1.0	1.0	1.0
Uzbekistan	2.0	2.0	2.0	2.0	2.0	1.7	1.7	1.7	1.7
Competition policy									
Kazakstan	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Kyrgyzstan	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Tajikistan	2.0	2.0	2.0	2.0	2.0	2.0	1.7	1.7	1.7
Turkmenistan	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Uzbekistan	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	1.7
Infrastructure reform									
Kazakstan	1.7	2.0	2.0	2.0	2.0	2.0	2.3	2.3	2.3
Kyrgyzstan	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Tajikistan	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.3
Turkmenistan	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Uzbekistan	1.0	1.0	1.0	1.3	1.3	1.3	1.7	1.7	1.7
Banking sector reform									
Kazakstan	2.0	2.0	2.3	2.3	2.3	2.3	2.7	2.7	3.0
Kyrgyzstan	2.0	2.0	2.7	2.7	2.3	2.3	2.3	2.3	2.3
Tajikistan	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.7	1.7
Turkmenistan	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Uzbekistan	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
NBFI reform									
Kazakstan	1.7	1.7	1.7	2.0	2.0	2.3	2.3	2.3	2.3
Kyrgyzstan	1.7	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Tajikistan	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Turkmenistan	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Uzbekistan	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0

Source: European Bank for Reconstruction and Development, various issues. *Transition Report*, European Bank for Reconstruction and Development, London

5 POLITICAL DEVELOPMENTS

Democratisation was assumed to be a major part of transition, accompanying or even facilitating economic change. This is understandable given that the ‘transitions’ began in Eastern Europe as democratic openings, but the assumption of democratisation has proved tenuous in parts of the former Soviet Union and untenable in Central Asia. Importantly, democracy is not a precondition for a functioning market economy.

Because democratisation was an assumed feature of the transition period, the following chapter will describe aspects of political developments in Central Asia. It will argue that the Central Asian republics are not democratising and that the region’s leaders probably have no intention of pursuing wider democratisation. Democratic processes remain underdeveloped or are deliberately thwarted. As a consequence, no president of a Central Asian republic has yet been removed from power by democratic process, even though all have held a number of elections, and other aspects of a functioning democracy remain weak. This chapter investigates some of these aspects, concentrating on elections, political contestation, freedom of the media, and judicial function. This is of course hardly an exhaustive list of aspects of democratisation; the chapter essentially seeks to use these factors to provide an insight into change in the region since 1992.

5.1 OVERVIEW OF DEMOCRATISATION IN CENTRAL ASIA

The Central Asian republics have all adopted constitutions containing provisions to underpin a democratic system. Typically, they provide *inter alia* for the respect of human rights, freedom of speech and association, and free elections. Thus, all of the CARs have adopted constitutions that set out the legal conditions for the development of civil society and opposition groups (through freedom of religion/creed and ideology), all set out the separation of state powers and provide for independence of the judiciary, all establish the right to disseminate ideas and opinions and the right to engage in demonstrations, rallies and meetings, all prohibit the use of torture or inhumane treatment, and all establish the right to free elections to determine the people’s representatives (Table 5.1).

So, this essentially provides the *formal* requirements for the development of the facets of democracy—namely, civil society, political society, and the rule of law. Since 1992, however, governments in all the Central Asian republics have grown increasingly repressive—commitments to human rights have been abrogated, the critical press has been repressed, and parliaments have been eclipsed in favour of increased presidential

Table 5.1 Constitutions of Central Asia, key provisions

	Kazakstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan
Free elections, with universal suffrage	Articles 41 and 51	Article 1	Article 27 ^a	Articles 89 and 92	Article 117
Separation of powers	Article 3	Article 7	Article 9	Article 4	Article 11
Respect for ideological and political diversity	Article 5	Article 16	Article 8	Articles 11 and 26	Article 12
Secularity of the state	Article 5	Article 8	Article 8	Article 1	Article 12
Universal equality	Article 14		Article 17	Articles 17 and 18	Article 46
Human rights and freedoms	Article 12	Articles 15 and 16	Articles 5 and 17	Article 3	Article 13
Freedom of association	Article 23	Article 8	Article 28	Article 28 ^b	Articles 34 and 56–62 ^c
Freedom of religion/creed	Article 19	Article 16	Article 26	Article 11	Article 31
Right to take part in meetings, rallies and demonstrations	Article 32	Article 16	Article 29	Article 27	Article 33
Freedom of speech/press	Article 20	Article 16	Article 30	Article 26	Articles 29 and 67
Private property/ownership	Articles 6 and 26	Article 4	Article 32	Article 9	Article 36
Protection from arbitrary state interference	Article 5	Article 39		Article 23	Article 27
Protection from torture, inhumane treatment	Article 17	Article 18	Article 18	Article 21	Article 26

Notes: ^aThis article does not explicitly stipulate that elections must be free. ^b There is ample scope for political misinterpretation in Article 28 of the Turkmen Constitution. ^c Article 57 of the Uzbek Constitution allows considerable scope for interpretation.

Sources: *Constitution of the Republic of Kazakhstan* (adopted 28 January 1993, revised 1995), *Constitution of the Kyrgyz Republic* (adopted on 5 May 1993), *Constitution of the Republic of Tajikistan*, *Constitution of Turkmenistan*, *Constitution of the Republic of Uzbekistan*.

power. In all cases, the state and political power have come to revolve around the presidential figure. Elections, when held, have usually not been free or fair, and opposition groups, such as exist, are harassed, intimidated and repressed. As a result, the critical feature of democratisation in the region is not the constitutional existence of aspects of a democratic system, but the way in which these factors have developed *in practice*.¹

Critically, however, the 'window of opportunity' discussed by radical economists (see Chapter 2) did not open in Central Asia. There was no break with the past, and no temporary displacement of old élites by reformers. No opposition movement emerged to take power and initiate change. Instead, reforms in Central Asia were adopted by the old *nomenklatura*, which was concerned to ensure political and social stability and

economic continuity. Thus, the political economy of transition in Central Asia very different to that in Eastern Europe and the Baltics.

The following section will analyse select components of the political situation in each of the Central Asian republics—democratisation and elections, political contestation, freedom of the media, and the rule of law.

5.2 KAZAKSTAN

5.2.1 Democracy and elections

Two presidential elections have been held in Kazakhstan since 1991. The first, in December 1991, was won unopposed by Nursultan Nazarbaev. Nazarbaev's presidential term was extended by general referendum in April 1995, so he did not have to contest the presidential elections that would otherwise have taken place in 1996. A constitutional amendment in October 1998 extended the Presidential term from 5 to 7 years and removed the age limit of 65.

A further presidential election was held in January 1999. Although contested by a range of candidates, it was not widely regarded as free and fair, given that it was held at short notice, opposition candidates and movements were harassed and prevented from organising for dubious legal reasons, and the most prominent opposition candidates were disqualified or discouraged from participating on various spurious legal grounds (see OSCE 1999a and also Buluktaev 2002).

Parliamentary elections were held in March 1994. The resulting parliament turned out relatively independent-minded in fulfilling its role as a legislature and alternative focus of power within the political structure. The parliament was, however, sadly short lived. The Constitutional Court annulled the election on 6 March 1995 in a move that was rumoured to have been orchestrated by Nazarbaev in the face of the parliament's increasing 'assertiveness' (see Brill Olcott 1997). Re-elections were held in December 1995, and the resulting parliament was more amenable to the President's needs, with around 60 per cent of the deputies associated in some way with the structures of power (Kurtov 2001). Irregularities were reported in the conduct of the election.² Parliamentary elections were held again in 1999, for the Senate on 17 September and the House of Representatives on 10 and 24 October. As with earlier elections, the 1999 elections did not reach the standards hoped for. Opposition politicians and media outlets were often subject to violence and harassment, and prominent opposition figures were distracted by legal matters.³ The post-Soviet period has also seen a strong shift towards Kazak dominance of power structures. In this regard, Kurtov (2001) points out that Kazaks occupied 75 per cent of seats in the 1995 parliament, which could have consequences in terms of ethnic unease, particularly in northern areas of the country, which have a higher proportion of Slavs.

The Central Election Commission, the body responsible for conducting and overseeing elections in Kazakhstan, and notionally the body responsible for ensuring the legitimacy of the electoral process, is elected by the *Majilis* from candidates proposed by the President. This clearly is not ideal. Given that the members of the CEC are beholden to the President for their jobs, can the public reasonably expect them to

discharge their duties impartially? Unfortunately, given this situation, even if the Commission succeeded in organising a fair and unblemished election, most people would still view the results with suspicion.

5.2.2 Political contestation

Although the Constitution guarantees a diversity of ideological standpoints and free contestation of political space, opposition groups' ability to operate is in reality severely circumscribed. Currently, only seven political parties are officially registered—*Aq Zhol*, *Otan*, the Civic, Agrarian, *Aul* Social Democratic and Communist parties, and the Party of Patriots (*RFE/RL Central Asia Report*, 15 April 2003). Changes in the registration process (see below) prevented a number of other prominent parties from re-registering in April 2003.

Opposition movements, including political parties and NGOs, are routinely harassed by officials, often fall foul of mendacious rules on association, and are subject to violence and arbitrary incarceration.⁴ One favoured way of limiting political contestation in Kazakhstan was to charge opposition leaders with attending unsanctioned meetings or demonstrations. The authorities, of course, demonstrated no particular enthusiasm or zeal for sanctioning the meetings or demonstrations held by their opponents. Conviction then precluded that person from participating in future elections. The government used this law to prevent prominent opposition candidates Akezhan Kazhgeldin and Murat Auezov from contesting the January 1999 presidential elections, thus removing the most likely electoral threats from the competition. The law was subsequently changed in July 1999 to prevent abuse of this kind (*Interfax Central Asia News*, 6 August 1999). Since then, the way of discouraging dissenting campaigners has been to charge, convict and imprison opposition figures on tax evasion and 'abuse of power' allegations.⁵ Opposition parties' meetings and demonstrations are frequently broken up or denounced by various levels of authority.

The Law on Social Associations prohibits unregistered associations from operating, and prevents the formation of associations that infringe the 'moral foundations of the citizenry'.⁶ Registration as a social association is an awkward procedure under the purview of the Ministry of Justice or its local subsidiaries and attracts an official fee.⁷ The Law on Political Parties, introduced in mid 2002, stipulates an initial conference of 1,000 people representing two-thirds of Kazakhstan's oblasts, the collection of 50,000 signatures of support, and 700 members in each of the 14 oblasts and the two special cities, Almaty and Astana.⁸

Registration as a presidential candidate requires signatures of support collected from 2 per cent of the constituency drawn from two-thirds of the oblasts, Almaty and Astana. Collection entails gathering the signatory's full name, date of birth, ID document numbers, and address.⁹ Not surprisingly, opposition candidates find it difficult to garner the required number of signatures. Candidates must also pass a test of fluency in Kazak, which not only excludes the majority of Russians from contesting the presidency but also potentially large numbers of educated Kazaks, the very group from which most candidates would be drawn. Candidates must also pay a fee equivalent to one hundred times the minimum wage.¹⁰ Senate candidates must collect the signatures of no less than

10 per cent of voters, drawn from all the districts, but no more than 15 per cent in any given district, and also pay a fee equal to twenty-five times the official minimum salary.¹¹ Candidates to the *Majilis* also have to pay a fee.

These legal obstructions have made it difficult for opposition groups to organise officially as political parties, contest elections, and serve as a critical counterweight to the entrenched regime. At the same time, any individual who presents as a possible alternative to the incumbent regime faces a string of disincentives, ranging from increased attention from tax police, to arbitrary restrictions on movement, to being beaten and/or imprisoned on dubious grounds or having their family subjected to politically-inspired violence. In short, the political space in Kazakhstan is not properly contested, and will not be until the barriers to entry into the political arena are substantially lowered, law enforcement is made non-partisan, and the threat of violence is removed from public political life.

5.2.3 Free media

The Kazak Constitution guarantees freedom of expression (see Table 5.1). In practice, however, this has not translated to an open and critical media sector. As with opposition politicians, the critical media face politically-motivated legal obstructions, personal violence, harassment and imprisonment.

At the soft end of the spectrum, critical media outlets tend to face legal obstacles to continuing their activities. Recent examples have been the suspension of Tan TV in March 2002 for 'technical violations', and fines imposed on it allegedly for copyright violations. Pavlodar independent local TV station, *Irbis*, had transmission suspended for three months in 2001 for allegedly violating the law on mass media by failing to broadcast sufficient Kazak language content. The government revoked its broadcast license in 2002 (Blua 2002; *Interfax Central Asia News*, 19 November 2002). *Nachnem s Ponedelnika* had publication suspended by a district court in Almaty in March 2002 for 'failing to indicate the paper's address and print run on each issue' (*RFE/RL Newsline*, 6 March 2002).

Some critical newspapers have found it difficult to access printing facilities in Kazakhstan. For example, *XXI Vek* was prevented from publishing through the publishing house owned by the Agricultural Ministry in November 1999. Similarly, *Vremya-PO* was prevented from printing in September 2000, and, in February 2002, *Respublika-delovoe obozrenie* was prevented from printing with the state-owned publishing house Daur (*RFE/RL Newsline*, 9 December 1999, 8 February 2002; *RFE/RL (Un)civil Societies*, 7 September 2000). Some newspapers have attempted to continue publishing by printing outside Kazakhstan, but this has not been entirely successful, as Kazak customs officials have been diligent in finding reasons to prevent importation. For example, they prevented distribution of an issue of *Nachnem s Ponedelnika* in May 2000 by confiscating it as it crossed the border (*RFE/RL Newsline*, 26 May 2000).

The most notorious legal infringements of the principles of freedom of expression and the press reside in the rules surrounding the dignity and honour of the president. Article 318 of the Kazak Criminal Code proscribes 'public insult or other offence against the honour and dignity of the President...' as a criminal offence punishable by a

large fine or up to three years' imprisonment,¹² though the law does specify that speeches critical of the president's policies are not liable. Similar, but less severe laws are in place for offences against the honour and dignity of other public officials (Article 19 2002a), and these laws have been used repeatedly as a means of silencing journalists,¹³ media outlets¹⁴ and opposition politicians.¹⁵

The most alarming aspect of developments within the media has been the threat of extra-legal physical violence as retribution for criticising the regime. This takes many forms, ranging from intimidation to destruction of equipment and property, to physical attacks on reporters and editors.¹⁶ Its effect is to make dissent from the regime's position not only difficult to publish, but actually dangerous.

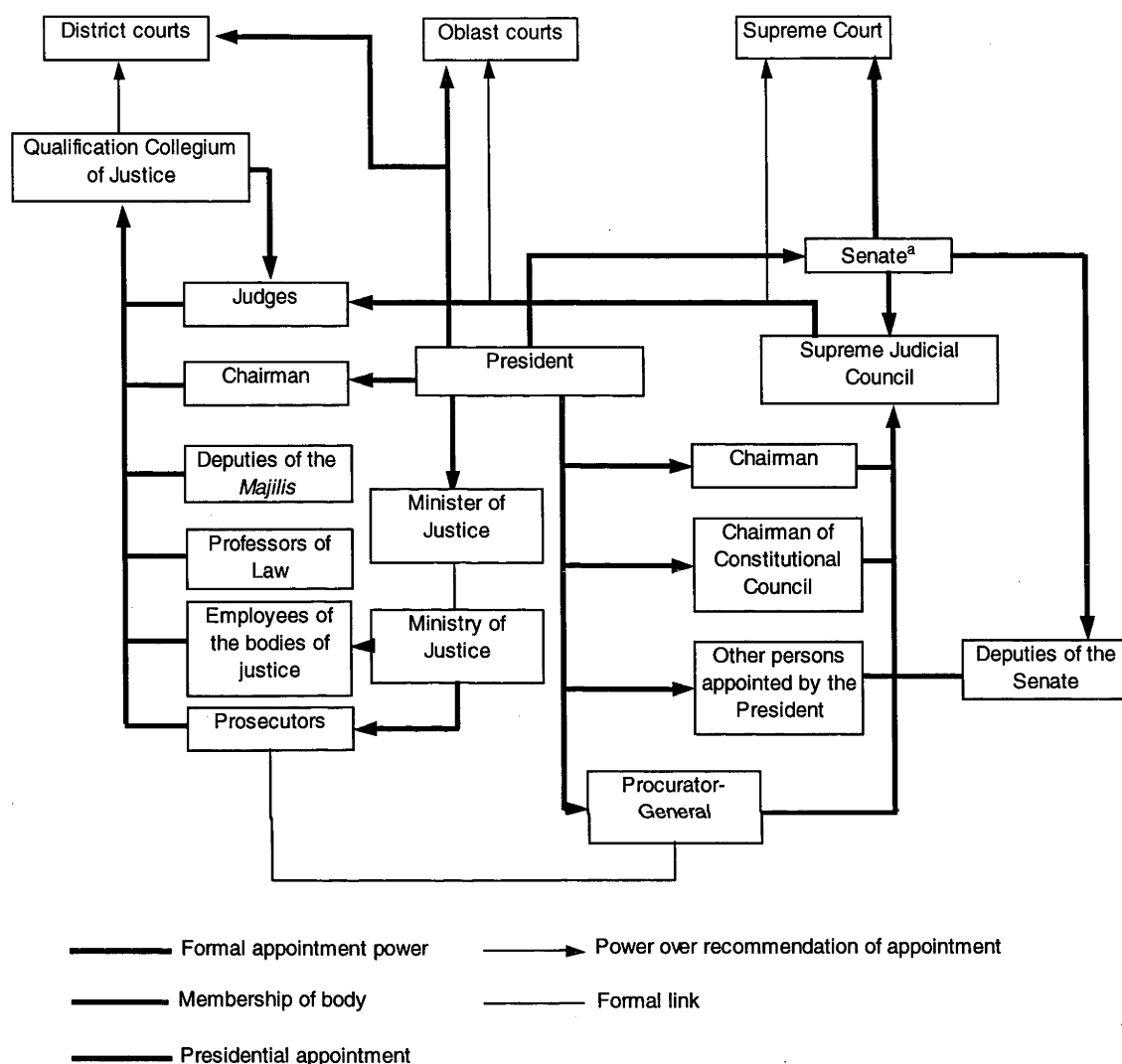
5.2.4 Rule of law

Kazakhstan has a three-tier court system comprising local/district courts, *oblast* (province) courts, and the supreme court.¹⁷ Local courts have responsibility for less serious crimes. Oblast courts usually handle more serious crimes and appeals from local verdicts. The Supreme Court is the court of appeal for all cases dealt with in the lower courts (Jurist n.d.). These three levels are surmounted by the Constitutional Council, which decides on the constitutionality of legislation passed by the Parliament and international treaties signed by the government. It also decides disputes regarding the correctness of elections, and on the incapacitation or treason of the president.

The system of appointing judges to the three levels of courts is shown in Figure 5.1. The President has the power to appoint members of the district and oblast courts, on the recommendation of the Qualification Collegium of Justice and the Supreme Judicial Council respectively. This situation compromises the lower courts, because the President is legally entitled to form or dissolve them as necessary,¹⁸ and so has control over lower level judges' careers and livelihoods. Thus, only an exceptionally foolhardy or brave court is likely to make judgments contrary to the President's interests. The Supreme Court is appointed by the Senate, on the recommendation of the Supreme Judicial Council. As the diagram shows, the President appoints most members of the Supreme Judicial Council, the only exceptions being members appointed by the Senate. Seven of the 39 Senators, however, are also appointed by the President, who is therefore very unlikely to encounter a Supreme Court that ignores his interests when making judgments. The Constitutional Council consists of seven members appointed jointly by the President (two members and the chairperson), the *Majilis* and Senate (two members each).

In practice, no level of the judiciary is independent of the president. This might be workable if the president were the apolitical head of state of a functioning parliamentary democracy, but as it stands the president is not apolitical, nor is the parliament an effective arena for the contest of ideologies. The judiciary, as currently constituted, cannot be relied upon for impartial, non-partisan decisions, hence Kazakhstan cannot be considered to have effective separation of powers or rule of law.

Figure 5.1 Patronage in the Kazak judicial system



Note: ^a The president appoints seven of the total 39 senators; the rest are determined by indirect election.

5.3 KYRGYZSTAN

5.3.1 Democracy and elections

While it was justly touted as the region's pre-eminent democracy in the first half of the 1990s, recent years have seen a slide towards decreased levels of freedom and fairness.¹⁹ In spite of this, it remains the region's most democratic country, with a comparatively free political scene and active opposition, and has among the most strident and vocal media organisations in the region.

Kyrgyzstan has had a number of parliamentary elections in the post-Soviet period. Askar Akaev, independent Kyrgyzstan's only president so far, was elected President as a compromise candidate in a closed election of the Supreme Soviet in 1990. In October

1991, he was elected unopposed as President of the republic at a general election (OSCE 1995), and re-elected in December 1995 and October 2000, even though under the constitution '...[t]he same person cannot be elected President for more than two consecutive terms'.²⁰

The 1995 presidential elections were contested by three candidates, and Akaev won with 73.9 per cent of the vote. The elections themselves were held ahead of schedule, raising questions about their constitutional correctness. Furthermore, a number of candidates were barred from contesting the election on registration technicalities, and the rushed nature of the elections also meant that the time available for potential candidates to collect the required 50,000 signatures, and mount campaigns, was severely limited. Nonetheless, the election overall was considered satisfactory (Anderson 1999).

The same cannot be said of the October 2000 presidential election, which saw considerable exclusion of potential candidates and harassment of opposition politicians and journalists. Some candidates were excluded by imposition of language tests, others mired in legal proceedings, or excluded by the registration requirements. Two candidates, for example, were unable to collect the required 50,000 signatures (OSCE 2000b). The OSCE also reported significant pressures on state employees to collect signatures for Akaev's campaign, and some state employees and students were reportedly pressured to vote for Akaev under threat of reprisals (OSCE 2000b). Among other discrepancies, one ballot box was found to contain 700 votes for Akaev before voting had even begun (OSCE 2000b).

Parliamentary elections were held in February 1995, and again in February 2000. As with the presidential election, some candidates' efforts in 2000 were hampered by legal diversions.²¹ The campaigning and voting itself were relatively free and open, but OSCE (2000a) observers reported pockets of voter intimidation, vote buying, and other varieties of electoral fraud. Several opposition candidates were deregistered between the first and second rounds, most notoriously Daniyar Usenov (see OSCE 2000a; *Interfax Central Asia News*, 8 March and 11 March 2000).

Kyrgyz law provides extensively for an effective, efficient and transparent hierarchy of commissions to oversee elections.²² The President, however, has constitutional responsibility for appointing the Chairman and one-third of the members of the Central Committee on Elections and Conduct of Referenda (that is, the Central Election Commission), the other two-thirds of its members are appointed independently by the Assembly of People's Representatives and the Legislative Assembly.²³

The Central Election Commission bears responsibility for overseeing all lower-level election commissions (Oblast and Bishkek, territorial, raion, precinct),²⁴ which arguably exposes the electoral system to bias in favour of the incumbent president, much as in Kazakhstan.

5.3.2 Political contestation

The Constitution of the Kyrgyz Republic provides for open political contestation and freedoms of association, religion and speech. Candidature for presidential elections is curtailed, however, by registration requirements. Any candidate has to collect supporting signatures of 50,000 voters, at least 3 per cent of which must be from each

oblast and Bishkek city (OECD 2000b). The population of Kyrgyzstan is estimated at around 4.9 million, so 50,000 signatures represents a significant burden merely to begin campaigning. The process is further complicated by the requirement that the president be competent in Kyrgyz. All would-be candidates' proficiency was tested in the registration process for the 2000 presidential election, leading to the elimination of eight potential candidates and withdrawal of two others—some candidates were fluent in spoken Kyrgyz, but failed the writing test (OSCE 2000b; see also Curtis 2000). Another candidate, Professor Kubanychbek Apas, was barred because he had not lived in the Kyrgyz Republic for the required 15 years. Participation is further constrained by a registration fee set at 1,000 times the Kyrgyz minimum monthly wage (OECD 2000b). Together, these requirements essentially ensure that any candidate must be very wealthy, ethnically Kyrgyz, and have an extensive team scouring the entire country for willing supporters.

Registration procedures for the parliamentary elections are much less stringent, and consequently those elections have been much more widely contested. Nevertheless, in the 2000 parliamentary elections, candidates in the single-mandate constituencies had to lodge a deposit of 30,000 som with the Central Election Commission (OSCE 2000a), and also submit a declaration of their income and assets (OSCE 2000a). Several prominent opposition parties, including Feliks Kulov's Ar-Namys Party, were prevented from contesting the 2000 parliamentary elections for failing to satisfy registration requirements (see OSCE 2000a).

Effective participation by opposition figures and groups is compromised by legal and extra-legal harassment and intimidation. The most prominent opposition candidate in the 2000 presidential elections, Feliks Kulov, was mired in legal proceedings relating to dubious charges of abuse of power and forgery when Minister of National Security.²⁵ Kulov in September effectively disqualified himself by refusing to take the language examination, but subsequently threw his weight behind the campaign of Omurbek Tekebaev, Speaker of the Lower House and Chairman of the Ata-Meken Party (*RFE/RL Newslines*, 7 November). Another prominent opposition politician, Topchubek Turgunaliyev, chairman of the Erkendik Party, experienced similarly spurious legal diversions in the run-up to the elections.²⁶ He was charged, with nine others, with conspiring to assassinate President Akaev. The trial ended on 1 September, two months before the presidential election (*RFE/RL Newslines*, 4 September 2000), and Turgunaliyev's sentence of 16 years' imprisonment thus prevented him from taking part.²⁷

5.3.3 Free media

Freedom of the media is guaranteed by Article 16 of the Constitution. The post-Soviet period has seen the persistence of a strident critical private press alongside a more docile state-owned press and largely apolitical TV and radio (Alisheva 2003).

The government, however, engages in a number of measures to control or sideline the critical media, ranging from legal obstacles to withholding registration, violence, and intimidation. The most efficient way of shutting down critical voices is to use the libel and slander laws. For example, as early as 1995, journalists from the newspaper

Res Publica were sentenced for libel after publishing an article critical of President Akaev (*RFERL Newslines*, 11 July 1995).²⁸ *Res Publica* journalist Yrysbek Omurzakov was convicted of slandering the president in June 1996, and sentenced to two years' jail.²⁹ Zamira Sydykova and three other journalists from the newspaper were convicted of libel again in May 1997, after publishing articles criticising Dastan Sarygulov, head of Kyrgyzstan's state gold company (Idinov and Pannier 1997). *Res Publica* was fined for libel in March 2000, and again in October 2000 for an article criticising the Ministry of Justice.³⁰

Similarly, the newspaper *Kriminal* was banned in January 1997 for publishing articles that 'insulted' government officials. Another newspaper, *Asaba*, was sued for libel in 2000 for repeatedly criticising Turdakun Usubaliev, former Kyrgyz Communist Party First Secretary, and ordered to pay 5 million som in compensation (*RFERL (Un)Civil Societies*, 19 October 2000). It should be noted, however, that Akaev attempted to transfer the libel law from the Criminal to the Civil Code, and remove imprisonment as a punishment for it in 2003 (President of the Kyrgyz Republic 2003). The bill would, had it passed parliament, also have imposed a 5 per cent deposit for plaintiffs on beginning their action (*IRINnews* 2003). Unfortunately, the Kyrgyz parliament rejected the bill in June 2004 (*Agence-France Presse*, 8 June 2004).

Another way to threaten critics is to launch tax inspections against them. For example, Alexander Kim, editor of *Vechernii Bishkek*, was arrested for tax evasion in August–September 1999, and later resigned. (*RFERL Kyrgyz Report*, 21 September 1999).

The registration procedures provide another way of stifling critical voices. All media outlets must register with the Ministry of Justice,³¹ pay a fee,³² and divulge their sources of finance.³³ Registration can be refused if the organisation's aims are deemed to contradict the Constitution,³⁴ and can be suspended for violations of Article 3 of the law against divulging state or commercial secrets, 'propagating war, violence...cruelty, fanning national, religious intolerance or strife to other nations or people', offending individuals' dignity and honour, and distributing false information.³⁵ Media outlets can be deregistered for repeatedly infringing the Law on Mass Media.³⁶

The registration requirements and Law on Mass Media have been used against a number of media outlets. Radio Almaz, purportedly Kyrgyzstan's first independent radio station, was in 1997 temporarily prevented from re-registering by the National Communications Agency, which demanded documents additional to those usually required (*RFERL Newslines*, 4 March 1998). In 2001, moreover, the Justice Ministry ordered all media outlets and political organisations to re-register. In the process, it initially permitted, then annulled, the registration of 16 media outlets, including the opposition newspapers *Agym* and *Moya Stolitsa*.

The physical process of printing has until recently represented a major constraint to critical newspapers. Before November 2003, Kyrgyzstan had only one high-quality printing shop available to newspaper publishers—the state-run Uchkun printing house (Jumagulov 2003). Uchkun has frequently, often arbitrarily, refused to print issues of opposition newspapers.³⁷ The situation became sufficiently serious in the late 1990s that

a number of international organisations, with financial backing of the US government, brokered an agreement with the Kyrgyz government to establish an alternative printing house (Bureau of Democracy, Human Rights and Labour 2003).

5.3.4 Rule of law

The Kyrgyz Constitution provides for a free judiciary subject only to the Constitution and the Law,³⁸ with a Constitutional Court, Supreme Court, Higher Arbitration Court, and local courts.³⁹ Judges in the Constitutional Court are nominated by the president and elected for a term of 15 years by the Legislative Assembly and the lower and upper houses of the *Jogorku Kenesh* (parliament) respectively. Judges of the Supreme and Higher Arbitration courts are nominated by the president and elected for a term of ten years by the People's Representative Assembly. The president appoints judges of the lower courts.⁴⁰

The Constitutional Court has jurisdiction over constitutional matters, deciding the constitutionality of legislation and the validity of presidential elections.⁴¹ The Supreme Court is the highest judicial body for civil, criminal and administrative court proceedings and administers the local-level courts.⁴² The Higher Arbitration Court is the apex of a system of arbitration courts whose remit is to deal with 'disputes in the economic area...based on different forms of property'.⁴³

Since appointments to the lower level courts are made directly by the president, officers of these courts are likely to favour the president *even if he places no pressure on them*. The Kyrgyz parliament remains quite independent and sometimes antagonistic towards the president, which means that upper-level judicial appointments are more likely to deliver politically impartial judgments. Problems arise, however, when the appeals courts are flooded with appeals against politically-motivated lower court decisions. The process subjects appellants to ever more expensive and time-consuming appeals at the higher levels of the system, and to incarceration for long periods before their appeal is heard, which can be a form of non-violent bureaucratic repression of critical voices.⁴⁴

In practice, the judiciary is frequently perceived as favouring the president and his associates. While the system of appointment at the higher levels of the judiciary is probably as good as possible in the circumstances, there is no obvious reason why the president of the country should be so intimately involved in appointments to lower-level courts.

5.4 TAJIKISTAN

5.4.1 Democracy and elections

Although Tajikistan suffered five years of extremely violent civil war following the collapse of the Soviet Union, two presidential and two parliamentary elections have been held. The first presidential election, held on 6 November 1994, was won by Imomali Rahmonov with 58.3 per cent of the votes; his opponent, Abdumalik Abdulajanov, garnering 35.0 per cent. Rahmonov had been appointed president by the Supreme Soviet of Tajikistan in November 1992, and the 1994 vote can hardly be considered legitimate given the conditions of war and social disorganisation prevailing

at the time. The election campaign was marred by violence, including bombings in Dushanbe, and complaints of fraud (*BBC Monitoring Service: Former Soviet Union*, 9 November 1994; *BBC Monitoring Service: Former USSR*, 8 November 1994). The major political parties were excluded from the political process at the time under a ban imposed by the Supreme Court in June 1993 (*BBC Monitoring: Former USSR*, 22 June 1993).

A power-sharing peace agreement was concluded in 1997, and Tajikistan's second presidential election was held on 6 November 1999. Rahmonov won again, this time with 97 per cent of voters favouring him over his opponent, Davlat Usmon (2 per cent). The 1999 election's legitimacy did not exceed that of its predecessor. Of the three opposition candidates—Sayfiddin Turayev (Party of Justice), Sulton Quvvatov (Democratic Party of Tajikistan), and Davlat Usmon (Islamic Rebirth Party)—the first two were excluded from registering by the Supreme Court, which also initially barred Usmon for failing to gather the required 145,000 signatures, then reinstated him even though he freely admitted his failure (*Reuters*, 22 October 1999). Usmon, in turn, initially refused to contest the elections, in protest against the way the election campaign was conducted (Djavadi and Pannier 2000),⁴⁵ but then changed his mind hours before voting began (*Reuters*, 5 November 1999). The OSCE declined to observe the election,⁴⁶ the campaign was torn by violence,⁴⁷ and the election day was reported by some to be characterised by electoral abuses, including multiple voting (*Reuters*, 8 November 1999).⁴⁸

The Presidential term of office was extended from five to seven years by constitutional referendum on 26 September 1999, but this referendum also introduced a one-term limit on the presidency (*Reuters*, 3 September 1999). A further referendum, in 2003, however, removed this restriction, allowing the incumbent president, Rahmonov, to serve a further two seven-year terms after his current term (Solovyov 2003).

Two parliamentary elections have been held since Tajikistan gained independence. The first was in February/March 1995, and the Communist Party of Tajikistan, then aligned with president Imomali Rahmonov, won an overwhelming majority in the unicameral parliament. Again, other major parties were excluded from the political process by a Supreme Court ban.

The 1999 referendum established the constitutional basis for making the parliament a bicameral body consisting of the *Majlisi Namoyandagon* (Assembly of Representatives) and the *Majlisi Milli* (National Assembly). Under the new structure, the primary legislative body, the *Majlisi Namoyandagon*, is elected directly by the general populace. Sixty-five per cent of its seats are elected in single-member constituencies, 35 per cent are elected on a proportional basis in an all-republican electoral district.⁴⁹ For the second chamber, the *Majlisi Milli*, three quarters of the members are elected by voting among People's Deputies of representative organs of the country's regions, cities, and districts, the other quarter is appointed by the president.⁵⁰ The heads of these regional legislatures are themselves appointed by the president. As a consequence, the chamber is a support to, rather than a constraint on, the president (OSCE 2000c; Jabborov 2004).

Elections for the Assembly of Representatives were held in February/March 2000. The People's Democratic Party of Tajikistan, the pro-presidential party, won the most seats (30), followed by the Communist Party of Tajikistan (15), independents (15) and

the Islamic Rebirth Party (2). Violence marred the election campaign: Shamsullo Dzhabirov, Deputy Security Minister and parliamentary candidate, was blown up by a car bomb (*BBCNews*, 16 February 2000); Dushanbe Mayor, Mahmadsaid Ubaidullayev, was injured in the same incident (*BBCNews*, 16 February 2000); and Deputy Prime Minister Akbar Turajonzoda was shot at but not harmed (*BBCNews*, 9 February 2000). These are merely the gravest examples of the violence that preceded the election (see for example Pannier 2000). Complaints about vote-rigging and other violations were raised but generally not acted upon (*BBC Monitoring Central Asia*, 10 March 2000, 29 February 2000; *BBC Monitoring Service: Former Soviet Union*, 3 March 2000). In a similar vein, the Central Election and Referendum Commission annulled the election of a number of opposition candidates before the election,⁵¹ and others after the first round.⁵²

5.4.2 Political contestation

It is difficult to address the question of political contestation in post-Soviet Tajikistan. The civil war itself could be considered an unfortunate manifestation of pluralism, contrasting as it did the desires of Islamic groups and the secular post-Soviet reincarnation of the Communist Party. Pluralism was not, however, a feature of the formal political system during the civil war; opposition parties were banned from 21 June until after conclusion of the peace agreement in 1997 (*BBC Monitoring Service*, 22 June 1993). The peace agreement provided for a certain number of powerful positions to be held by representatives of the opposition movements (*BBCNews*, 24 December 1997), and led the Supreme Court to lift the ban on opposition parties in August 1999—almost two years after the peace agreement was signed (*BBC Monitoring Central Asia*, 12 August 1999).⁵³ The very existence of this coalition of political actors ensures that the political space in Tajikistan is more open to competing points of view than is the case in either Uzbekistan or Turkmenistan. The referendum of 16 September 1999 formally allowed groups based on religious platforms to register as political parties (*Reuters*, 25 September 1999), which was interpreted as a substantial concession to the largely Islamic opposition.

Candidates in presidential elections must be nominated by one of a variety of bodies, typically a political party or a Council of People's Deputies,⁵⁴ or without the support of these bodies if they can collect the signatures of 5 per cent of the population of Tajikistan.⁵⁵ The 1999 presidential elections were not generally regarded as fair, for the reasons discussed above. Purely legal grounds were used to exclude all opposition candidates except one, and he was so hampered in the lead-up to the election that he declined to take part until days before the vote. His eventual registration as a candidate was actually illegal because he had been unable to gather the required number of signatures.

Six parties contested the 2000 parliamentary elections, but the Supreme Court and the Ministry of Justice had already refused to register a further six parties in 1999 for violating the Law on Political Parties.⁵⁶

5.4.3 Freedom of the media

The Tajik Constitution and Tajik media law provide for freedom of expression and the press,⁵⁷ but this is limited by sanctions on revealing state secrets; inciting violent overthrow of, or change to, the political and social system; promoting 'war, violence

and cruelty, racial, ethnic and religious intolerance', and distributing pornography. Encroachments on people's rights and dignity are also forbidden.⁵⁸

The Law on the Press and Other Mass Media stipulates that mass media must register with the relevant body (not specified in the law, but in practice, the local State notary (Article 19 2002b)) and pay a fee before they begin operations.⁵⁹ This requirement could be a bottleneck for establishment of media outlets, and provides unnecessary scope for government interference. An example of this bottleneck effect is the attempts of Asia-Plus to set up a private radio station in Dushanbe. It reportedly submitted all the relevant documents in 1998, but was not cleared to begin broadcasting until late 2002 (*BBC Monitoring Central Asia*, 30 July 2002). Registration can be terminated for repeated contraventions of Article 6 detailed above, most significantly for encroaching on a person's honour.⁶⁰

Slandering or insulting the honour and dignity of individuals is proscribed under Articles 135 and 136 of the Criminal Code of Tajikistan, with punishment ranging from fines to imprisonment for up to two years. Disturbingly, Article 137 specifically penalises insulting the honour and dignity of the President, with punishment of up to five years' imprisonment. Fortunately, the libel laws do not seem to have been misused as readily in Tajikistan as in Kyrgyzstan, but some high-profile cases have occurred nonetheless. For example, Tajik authorities sought the extradition from Moscow of Tajik journalist Dodojon Atovulloyev in 2001 for allegedly insulting the President. The Russian government detained him for some days, but refused the request, and the Tajik prosecutors dropped the case against him in July 2002.⁶¹ Also *Ruzi Nav* has also been harassed under this legislation, leading the printing house *Sharqi Ozod* to refuse publication of the newspaper (Pannier 2004).

There is little scope for independent, commercial media to develop. There are no daily newspapers, and very little of the print media is privately-owned (OSCE Representative on Freedom of the Media 2002; Human Rights Watch 1999). Asia-Plus became in 2002 the first private radio station in Dushanbe; some very small-scale media outlets do exist in the regions (*BBC Monitoring Media*, 24 April 2003), and there are many non-state television stations at the regional level (OSCE Representative on Freedom of the Media 2002). Unfortunately, the country's general poverty makes it difficult for media outlets to survive without government financial support.

There are several printing houses in Tajikistan, but only one, *Sharqi Ozod*, is of sufficient quality for most publications. It is government-run and handles the printing of most newspapers in Tajikistan (OSCE Representative on Freedom of the Media 2002). Consequently, it could represent a media bottleneck, as Uchkun has in Kyrgyzstan, but in practice this has happened less often than in Kyrgyzstan. *Sharqi Ozod*, however, refused to print the weekly newspaper *Ruzi Nav* in late 2003 without giving reasons but seemingly because of the newspaper's ongoing legal proceedings.⁶² A similar situation occurred with the newspapers *Vecherniye Vesti* and *Biznes i Politika* in late 1997, and *Junbish* in 1999, all of which had attempted to publish favourable articles about opposition politicians (*RFE/RL Feature Article*, 17 November 1997; *RFE/RL Media Matters*, 17 May 2002).

Journalists are also subjected to violence and intimidation. During the civil war so many journalists were killed that country came to be one of the most dangerous in the world for journalists (see Committee for the Protection of Journalists 2002; *RFE/RL Media Matters*, 17 May 2002). Since the civil war ended, the extent of the violence has diminished, but cases still occur, and officials are not shy of trying to intimidate journalists and media outlets that raise uncomfortable issues. Lieutenant-Colonel Jumahon Hotami, for example, a TV journalist who concentrated on exposing corruption in Tajikistan, was assassinated on 4 July 1999. Nematulloi Nurullo was dragged off the street, beaten, and detained for interrogation on 27 August 2000 (*RFERL Report (Un)Civil Societies Report*, 14 November 2000). And, in October 2002, three journalists who had aired a television program critical of military conscription procedures were reportedly forcibly drafted into the army (*RFERL Media Matters*, 8 November 2002).

5.4.4 Rule of law

The constitution provides for an independent judicial power,⁶³ comprising the Constitutional, Supreme, Supreme Economic and Military courts, the Court of Gorno-Badakshan Autonomous Oblast, and local-level courts. The Constitutional Court is the highest court and decides on the legality of lower-level court decisions, and of actions by executive government, the legislature, or other state bodies.⁶⁴

The President nominates and dismisses—subject to ratification by the Supreme Assembly—the chairman, deputy chairman, and judges of both the Constitutional and Supreme courts, the Procurator-General and his deputies.⁶⁵ The president's role at the centre of the judicial system opens up scope for distrust of the system because the Supreme Assembly is no real constraint on his exercise power. Thus, even if the appointments are fair, and the appointees are legitimate, the perception will remain that they are political placements.

While the extent of the judiciary's independence cannot be fully assessed, some incidents give cause for concern. For example, there has recently been a spate of prosecutions of people who fought for the United Tajik Opposition during the war.⁶⁶ In many such cases, it is impossible to discern clearly whether or not the verdicts are legitimate, but the preponderance of cases brought against former opposition members is disturbing. As noted above, however, the Supreme Court also lifted in 1999 the ban outlawing four main opposition parties—the Democratic Party, the Islamic Renaissance Party, Rastokhez and Lali Badokshon (*BBC Monitoring Service: former USSR*, 23 June 1993)—which suggests that there is some scope within the court system for fairness, politically at least.

5.5 TURKMENISTAN

5.5.1 Democracy and elections

A new constitution redesignating the Turkmen Supreme Soviet as the *Majlis* was adopted in May 1992. By dint of this, the First-Secretary of the Communist Party of Turkmenistan since 1985, Saparmurad Niyazov, became the first president of

independent Turkmenistan. Presidential elections were then held on 21 June 1992, in which Niyazov was elected unopposed, with 99.5 per cent of the vote (*Reuters News*, 22 June 1992). The constitution at the time set presidents' terms at five years and prescribed not more than two consecutive terms.⁶⁷

In January 1994, a referendum, reportedly passed with near 100 per cent support, extended Niyazov's term for five more years, allowing him to remain in power until 2002 without having to face an election (*Reuters News*, 15 January 1994). In December 1999, the *Khalk Maslakhaty* (The People's Council)⁶⁸ passed a law designating Niyazov as perpetual president, even though Niyazov himself had earlier pointed out that this contravened the constitution (*Reuters News*, 28 December 1999).⁶⁹ Niyazov made numerous announcements in 2001 calling for multi-candidate elections somewhere between 2010 and 2007–08, but these were rejected first by the People's Council and later, briefly, by the president himself (*Agence-France Presse*, 16 February 2001; *Reuters News*, 21 June 2002).⁷⁰

An election for the Majlis was held in December 1994. Officially, 99.8 per cent of voters turned out to cast their ballot, but this figure was contested by some (*Reuters News*, 12 December 1994). Fifty candidates, all members of the only legal party, the Democratic Party, were registered to contest the fifty seats, and, unsurprisingly, all were elected.⁷¹

A second parliamentary election was held on 12 December 1999. This time, alternative candidates were allowed, but had to stand as independents, as the Democratic Party remained the only legal one (*BBC Monitoring Central Asia*, 16 November 1999). The 50 seats were contested by 104 candidates, the majority of whom were members of the Democratic Party. The OSCE refused to observe the election, arguing that the one-party system was not democratic, and no other international observers attended (*Reuters News*, 10 December 1999; *BBC Monitoring: Former Soviet Union*, 13 December 1999).

Elections for local councils and for 65 seats on the People's Council, contested by 147 candidates, were held in April 2003. A 99.7 per cent turnout of eligible voters was claimed (*Dow Jones Newswires*, 6 April 2003; *Associated Press Newswires*, 6 April 2003). Pro-government forces proclaimed the elections a move towards democracy, but opposition groups again denounced them as fraudulent (*BBC Monitoring Central Asia*, 7 April 2003). On 18 August 2003, the People's Assembly voted unanimously to institute Niyazov as its Chair for life—an indication, perhaps, that the elections did not open up any great pluralism in Turkmen political life (*Associated Press*, 18 August 2003).

5.5.2 Political contestation

There is no scope for political contest in Turkmenistan. There is only one legal political party—the Democratic Party, headed by Niyazov. He has talked of allowing other political parties at some stage in the future, but no progress has ever been made (*BBC Monitoring Central Asia*, 20 December 1998). His resistance in this regard seems to be grounded in a misguided conflation of the government and the state, thus he has argued that

Parties cannot be created just by three or five, 20 or 30 persons. Nobody will allow such parties to interfere in state affairs, since they start with declarations about their opposition to state policy. Such parties start by leading ordinary people to demonstrations and violations of the law over any kind of hardships (Niyazov 1998)

He has also noted that: 'Any kind of party other than political organizations with religious ideologies can be created in the future...However, they will not become political opposition to the party of power and will act as partners' (*Interfax Central Asia News*, 29 December 1999). This seems to suggest that political parties will be allowed insofar as they do not hold policies contrary to his, a condition that clearly renders them pointless. Again, the emphasis is on establishing the formal requirements of a democracy but neutralising the content.

Because of repression within Turkmenistan, most of the opposition, and all the active opposition, is based outside the country (Safronov 2002; International Crisis Group 2003a). Most of the major opposition leaders are in exile. Avdy Kuliev, for example, defected from the regime in 1992 to found the United Turkmen Opposition, and Boris Shikhmuradov, with a number of other high-ranking officials, left the government in 2001 to found the National Democratic movement of Turkmenistan (International Crisis Group 2003a). Neither has been able to launch an effective counter to Niyazov's power from exile (see, for example, Safronov 2002). Kuliev was arrested when he travelled to Turkmenistan to make 'contacts with the Turkmen leadership', but released four days later (*BBC Monitoring Service: Former USSR*, 22 April 1998). Turkmen authorities accused Shikhmuradov of misappropriating state funds and theft and unsuccessfully tried to convince Russia and later the United States to extradite him to Turkmenistan (*Associated Press*, 14 February 2002; *Agence-France Presse*, 12 May 2002).

Other exiled Turkmen opposition members, such as Murat Esenov and Khalmurat Soyunov, have used Radio Liberty to broadcast the only non-state news reports in the Turkmen language. This has been an irritation to the regime (*Karavan-Blitz*, 12 June 1995), which it has tried to remove through intimidation and spurious extradition requests. The families of exiled politicians in particular remain a source of vulnerability: Shikhmuradov apparently returned to Turkmenistan to prevent his family being tortured, while Saparmurat Yklymov claimed that his family had been evicted from their home, and it is thought that the authorities were torturing his sons in early 2003.⁷²

The opposition's credibility is compromised by the fact that many of the leading opposition figures are former associates of Niyazov. Boris Shikhmuradov is the most obvious example, but other former officials who have tried to exert pressure from exile include Nazar Soyunov, Khudaiberdi Orazov, and Nurmukhammet Khanamov (International Crisis Group 2003a; *Interfax Central Asia News*, 5 February 2002). While their opposition to the regime is genuine—few people would be reckless enough so obviously to endanger themselves and their families without genuine reason—the preponderance of former officials among opposition figures can only bolster the impression that political contest in Turkmenistan is over who gets to control power and resources, rather than over a difference in ideology or approach; a point made by opposition politician Avdy Kuliev.⁷³

Alongside these figures stands a range of longer-lasting political or social parties. Agzybirlik, a moderate nationalist movement among the intelligentsia, is the most

prominent of these. Its leader, Nurberdy Nurmamedov, was arrested in February 2000 after he described government changes to the constitution as undemocratic and unconstitutional. He was sentenced to five years' in prison, but amnestied in January 2001 on condition of renouncing his earlier activities (*IPR Strategic Information Database*, 29 February 2000, 4 January 2001)

Opposition political activity appeared to be increasing during 2002, with some serious defections,⁷⁴ purges among top officials,⁷⁵ and efforts at cooperation among the exiled opposition groups.⁷⁶ The situation changed completely, however, following an apparent failed assassination attempt on Niyazov on 25 November 2002. Niyazov took the opportunity to accuse a wide range of individuals and groups of complicity, from opposition politicians to foreign states, and initiated hundreds of arrests, which were followed by a series of dubious confessions. Suspicion quickly arose that the assassination attempt was staged.⁷⁷

Niyazov initially accused Shikhmuradov, Khudaiberdy Orazov, Nurmukhammed Khanamov, and Imamberdy Yklymov of involvement. He then accused the Russian government of involvement, had a Turkmen businessman, Guvanch Dzhumayev, and many others arrested, as well as a number of Chechens, Turks, Azerbaijanis, and a US citizen (*Agence-France Presse*, 26 November 2002; *Interfax*, 25 November 2002; *Associated Press Newswires*, 2 December 2002). In their fervour to root out Turkmen dissidents, Turkmen authorities raided the Uzbek embassy compound, sparking off an international dispute. They then arrested former foreign minister Batur Berdeyev, former parliamentary speaker, Tagan Khalyev, and former head of the state television service, Serdar Rasimov (*Associated Press Newswires*, 17 December 2002; *Agence-France Presse*, 18 December 2002). Later, they arrested Boris Shikhmuradov, who for some reason was in the country (*BBC Monitoring Newsfile*, 26 December 2002), tortured him until he confessed to organising the assassination attempt with others, and sentenced him to 25 years in jail.⁷⁸ These, however, were just the most prominent figures—diplomats and human rights organisations reported that over 300 people had been arrested by the height of the purge (*Financial Times*, 17 December 2002). The assassination attempt has proven useful over quite a prolonged period. When the Turkmen ambassadors to Armenia and the United Kingdom, Toyli Kurbanov and Chary Babayev, defected in mid-1993, they were quickly denounced as conspirators in the plot.

The consequences for the opposition of the assassination attempt are not yet clear. Many leading opposition politicians have been imprisoned or have disappeared (OSCE Rapporteur 2003), and what little resistance there was in Turkmenistan prior to the assassination attempt has apparently ceased. The events seem, however, to have instilled a renewed urgency in coordination among exiled resistance groups (Ponomarev 2003).

5.5.3 Freedom of the media

There is no independent media organisation in Turkmenistan. The Turkmen media are completely dominated by state-run outlets, whose output is uncritical and hagiographic. They provide no scope for criticism, but do publish accounts of Niyazov's contribution to Turkmenistan so ludicrously overblown that even Niyazov pretends to be embarrassed (*BBC News*, 25 January 2001).

Such critical Turkmen media as exist are all based outside the country. They comprise mainly the Turkmen language services of Radio Free Europe/Radio Liberty—run by exiles—and the websites of dissident Turkmen politicians.⁷⁹ The websites are not easily accessed within Turkmenistan, for technical and economic reasons, so RFE/RL represents probably the only alternative news source accessible to ordinary Turkmen. This has been a source of irritation to the regime, which in late 2003 allegedly detained RFE/RL's Ashgabat correspondent, Saparmurat Ovezberdiev, beat and drugged him, and warned him not to continue creating problems (*BBC Monitoring Media*, 27 October 2003).

The Turkmen regime is also quite willing to assert its authority outside Turkmenistan. For instance, Turkmen RFE/RL journalist Murat Esenov was beaten up in Moscow on 8 October 1994, and, in 1995, the authorities tried to goad Russia into extraditing him and fellow journalist Khalmurat Soyunov back to Turkmenistan on spurious charges (*Karavan-Blitz*, 12 June 1995). More recently, RFE/RL journalist Sanazar Berdiev reportedly evaded a kidnap attempt in October 2002, and was beaten outside his Moscow apartment in September 2003. His father, Mukhamedgeldy Berdiev, also a journalist with RFE/RL, was assaulted in July 2003 (Panfilova 2003a). The government also attempted to extradite Orazmukhammet Yklymov from Russia in connection with the supposed assassination attempt in 2002 (*IPR Strategic Information Database*, 19 January 2003).

Opposition websites are of limited use because the population of Turkmenistan has very little access to internet facilities. Nonetheless, the authorities are reasonably diligent in preventing those few who have access from seeing things that contradict Niyazov. Turkmenistan has since 2000 had only one internet provider—Turkmentelekom—which routinely blocks foreign websites that contain material critical of the regime. Turkmentelekom blocked opposition leader Avdy Kuliev's website in early 2002, then destroyed it in May 2002 (*IPR Strategic Information Database*, 12 May 2002), and blocked the website of Russian newspaper *Komsomolskaya Pravda* after it published an article critical of Niyazov (*IPR Strategic Information Database*, 1 May 2002).

5.5.4 Rule of law

The Turkmen constitution provides for a separate and independent judiciary.⁸⁰ The court system comprises the Supreme Court, the High Commercial Court, and lower-level civil and military courts.⁸¹ An Arbitration Court was established in February 2000 (*Interfax*, 15 February 2000). The president appoints all judges for a term of five years, but the right to remove judges resides with the court system, except for chairs of the Supreme and High Commercial courts,⁸² who are appointed and can be removed by the President with parliamentary consent.⁸³ Given that the parliament is barely capable of wielding the proverbial rubber stamp, it hardly represents a constraint on the abuse of presidential power over the judiciary. As a consequence, the judiciary is totally beholden to the president for their position, their livelihood, and in truth probably existence. In practice, Niyazov has not hesitated to use his control of the various wings of power to remove judges, including the head of the Supreme Court in August 1996 and again in January

1999, a judge of the Supreme Court,⁸⁴ and many lower level judges. Allegations of corruption, probably based in fact, are the basis of some of these dismissals, but one is tempted to view with suspicion the selective nature of dismissals on this basis.

5.6 UZBEKISTAN

5.6.1 Elections and democracy

Islam Karimov, briefly First Secretary and head of state of the Uzbek SSR prior to independence, was elected President of Uzbekistan (after the country's formal declaration of independence on 1 September 1991) on 30 December 1991, garnering 86 per cent of the vote. He was opposed by only one candidate, Mukhammed Solikh of the Erk Party.

In a referendum held on 26 March 1995, 99.6 per cent of those voting were reported as approving extension of Karimov's term, due to end in 1997, to 2000.⁸⁵ The Constitution prohibits presidents from serving more than two terms consecutively, and the extension was thought to be a way of prolonging Karimov's first term⁸⁶ though official explanations spoke of ensuring the 'consistency of reforms' and synchronising the parliamentary and presidential elections.⁸⁷

The next presidential election, held on 9 January 2000, was a farce, even by Central Asian standards. Of the five parties allowed by the Central Election Commission, four nominated Karimov, and only one—the People's Democratic Party—nominated an alternative candidate, Abdulhafiz Dzhalolov.⁸⁸ This slim pretence of a contest was further discredited when Dzhalolov revealed that he supported Karimov's re-election and claimed to have voted for him.⁸⁹ The OSCE refused to send an observer mission, justly claiming that voters were not given a genuine choice.⁹⁰ Karimov won with a surprisingly slight 91.9 per cent of the vote (*Agence-France Presse*, 10 January).

Uzbekistan held another referendum on 27 January 2002, to introduce a second chamber of parliament and extend the presidential term from five to seven years.⁹¹ The first proposal was supported by 93.65 per cent of voters, the second by 91.78 per cent.⁹²

Elections for the unicameral parliament, the Oliy Majlis, were held on 25 December 1994. Of the 643 candidates registered to contest the 250 single-member electoral districts, 438 were members of the pro-presidential People's Democratic Party and 115 were members of the Progress of the Fatherland (Homeland) Party. The true opposition parties, Birlik and Erk, could not take part after the government blocked their efforts to register.⁹³ The head of the Fatherland Progress Party, Rustam Usmanov, was banned from taking part after calling for dual citizenship for ethnic Russians.⁹⁴ Nonetheless, the US Ambassador to Uzbekistan claimed that the elections met international standards and 'could be declared valid'.⁹⁵ One curious feature of the electoral system was that regional bodies (that is, local-level councils, etc) could nominate candidates. The results were seen as a sort of win for the regional bodies because party nominees picked up only about 34 per cent of the vote, and candidates nominated by regional bodies picked up most of the rest. Most of these candidates, however, were members of the People's Democratic Party anyway, so it made little difference.⁹⁶

Parliamentary elections were held again on 5 December 1999. This time, the election involved five parties—the Fidokorlar National Democratic Party, the Milliy Tiklanish (National Renaissance) Party, Adolat (Justice), the Homeland Progress Party, and the People's Democratic Party.⁹⁷ New legislation provided for non-party citizens' initiative groups to nominate independent candidates.⁹⁸ Of the 1,019 eventual candidates, 133 were nominated by these groups and all others were nominated by political parties or 'executive bodies' such as local councils. The OSCE sent only a limited observation mission, citing the wide gap between OSCE requirements and Uzbek practice.⁹⁹ The People's Democratic Party won the most seats (48), followed by the Fidokorlar Party (34), the Fatherland Progress Party (20), Adolat (11), and the others. Candidates nominated by 'executive bodies' won 110 seats, and candidates nominated by Citizens' Initiative Groups 16 seats (OSCE 1999b). Voter turnout was 95 per cent.¹⁰⁰

The successful referendum in 2002 introduced a bicameral parliament consisting of a Senate and a Legislative Chamber, but this will not be implemented until December 2004 (*Interfax Central Asia News*, 14 December 2002). As of July 2004, the structural details of the new parliament were still being drafted, but it appears that the Legislative Chamber will consist of 120 seats, 16 of which are filled by presidential appointees, the rest by general election (*BBC Monitoring Central Asia*, 28 June 2004), and will be a full-time professional legislative body. The Senate will review legislation passed by the Legislative Chamber and will 'consist of experienced people's representatives' (*Organisation of Asia-Pacific News Agencies*, 28 June 2004).

5.6.2 Political contestation

As in the other Central Asian republics, political contest in Uzbekistan is circumscribed by formal and informal constraints. Opposition groups are constrained principally by the Law of the Republic of Uzbekistan on Political Parties, which proscribes parties that seek 'violent change to the constitutional order' or stand against the 'sovereignty, integrity and security of the Republic of Uzbekistan, [and the] constitutional rights and freedoms of its people'. Parties that agitate for war or social, national, racial and religious unrest, attack the health and morals of the people, or are based on nationalist and religious principles are also forbidden.¹⁰¹ In practice, this article can be interpreted so widely as to encompass any opposition party.

Article 8, on registration of political parties, imposes a further barrier to political contest. To register with the Ministry of Justice, the would-be political party must supply among other things the signatures of 20,000 citizens of Uzbekistan who wish to join it.¹⁰² This would be difficult even under propitious circumstances, but, given the Uzbek government's rough treatment of opposition activists, most people would hesitate to add their name to such a list. Moreover, according to the law, each citizen can be a member of only one political party at a given time,¹⁰³ which effectively prohibits formal alliances of opposition parties.

The Ministry of Justice can refuse to register parties whose statute, aims or methods contradict the constitution, the Law on Political Parties, or any other legislation,¹⁰⁴ or if it finds evidence of falsification of the signatures. Repeated infringements of the

constitution or laws of Uzbekistan by registered parties can lead to the suspension of that party's activities, during which the party is forbidden to use the media, undertake political activities or take part in elections.¹⁰⁵

Candidates in elections to the *Oliy Majlis* are nominated by registered political parties or directly by citizens through 'initiative groups'. Political parties must present the signatures and personal details of at least 50,000 voters who support their participation in the election, or the signatures of 8,000 people from a particular voting district.¹⁰⁶ Initiative groups also have to present the signatures of no less than eight percent of voters—drawn proportionally from each individual *mahalla*, *kishlak* and *aul*—in their particular voting district.¹⁰⁷ Again, the Ministry of Justice can refuse registration if it deems any part of the signature document falsified.

Those serving a criminal sentence cannot participate, nor can those who have lived permanently outside Uzbekistan in the five years before the election, or who are serving in the armed forces or secret service. Importantly, professional workers of religious organisations or groups cannot participate either.¹⁰⁸

The right to nominate candidates for president belongs to political parties and the representative organs of government.¹⁰⁹ Political parties can nominate members of their own party or unaligned individuals; representative bodies can nominate anyone.¹¹⁰ As with the parliamentary elections, the Ministry of Justice handles the procedure for registering candidates. Political parties must present the signatures (and personal details) of 1 percent of all voters in Uzbekistan, or eight percent of voters in a single electoral district, in support of their candidate.¹¹¹ The provisions on falsification of signatures apply here as well; and people who have been sentenced for a 'premeditated crime' are excluded, as are those under investigation in relation to crime, or working for religious organisations.¹¹²

Thus, the legal framework is a serious barrier for political opposition. The Law on Political Parties in particular establishes substantial barriers to political contest, providing considerable scope for bureaucratic malevolence in registering political parties, and excessive legal scope for politically-motivated decisions regarding parties. This is important because the procedures for nominating candidates for parliament or the presidency privileges political parties, a privilege modified in theory, but not practice, for parliamentary elections by allowing 'initiative groups' to nominate parliamentary candidates. The laws pertaining to political parties and elections in Uzbekistan seem designed specifically to exclude outsiders and to serve insiders in the power structure. This is not democracy.

Alongside the formal means of reducing political contest, a number of informal disincentives are applied. Primary among these are litigation and violence. Article 158 of the Criminal Code sets prison terms or the death penalty for attacks on the president's life and prison terms for lesser attacks, accompanied in each case by confiscation of property, and also specifies penalties for insulting or slandering the president.

Article 159 of the Criminal Code prohibits attempts to overthrow the government using non-constitutional means, seize power, or remove from power legally elected or appointed representatives. It also forbids unconstitutional transgressions on the unity of territory of Uzbekistan. Materials advocating such matters are forbidden, as are actions

that seek to impede the legal activities of constitutional bodies or replace them by parallel structures of power not provided for by the constitution. Conspiracy to seize power or overthrow the constitutional order is punishable by a 10–20 year jail sentence and the confiscation of property.¹¹³

The special protections implied here may be justifiable for physical attacks on the President, but the special laws on slander and libel are less valid. Insofar as the president is merely the chief representative of the people in a supposed democracy—and therefore one of the population rather than apart from the population—it is not obvious why the person occupying the position should be protected by especially draconian laws above those that are extended to the rest of the population. Again, this is symptomatic of a spurious conflation of the state structure with those who hold positions within it.

The authorities also try to intimidate opposition activists into silence. It is common for opposition politicians to be robbed or attacked by strangers. This is not new; Abdurahim Pulatov, head of the opposition Birlik Party, was beaten up in Tashkent in June 1992 (*Reuters*, 30 June 1992). Former vice-president Shukrulla Mirsaidov claimed to have been beaten by Karimov supporters in September 1993 (*Reuters*, 19 September 1993), and the then head of Erk, Samat Murot, was apparently beaten up in October 1993 (*Reuters*, 14 October 1993). Several Uzbek opposition activists were beaten up in an apartment in Moscow apparently by Uzbek secret service agents in November 1993,¹¹⁴ and Mirsaidov's son was kidnapped and beaten in November 1996 (*Reuters*, 12 November 1996).

The violence and arbitrary exercise of state power continues to this day. Yelena Uralayeva was reportedly arrested, beaten, and then committed to a psychiatric hospital in April 2001 (*Associated Press Newswires*, 12 April 2001). Outspoken opposition journalist, Ruslan Shapirov, was reportedly attacked in January 2002 (*Agence-France Presse*, 1 February 2002). Journalists for RFE/RL and Voice of America, Khusnutdin Kutbetdinov and Yusuf Rasulov, were beaten up when they tried to cover an opposition protest in Tashkent in March 2003 (*Agence-France Presse*, 7 March 2003). Human rights activist Surat Ikramov was beaten up in Tashkent in August 2003 (*Associated Press Newswires*, 28 August 2003), and the head of the Zealous Women club, Motabar Tojiboyeva, was beaten up, along with several fellow protestors, after picketing a District Prosecutor's Office in Ferghana.

5.6.3 Media

Legal requirements are the first level of constraint on freedom of the media. All media outlets, except state and government institutions, must be registered.¹¹⁵ Registration can be refused if, among other things, the aims and goals of the organisation are not in accordance with the Constitution or if any of the owners live outside Uzbekistan.¹¹⁶ Article 139 of the criminal code covers cases of libel and slander, setting fines, 'corrective labour', or jail terms up to five years. Article 140 deals with insults demeaning to the honour or dignity of individuals, again providing for punishment by fine, 'corrective labour', or imprisonment. Article 158 deals specifically with insults, slander and libel directed at the president, setting as punishment 'corrective labour' or imprisonment for up to five years.¹¹⁷

In practice it has proved extremely difficult since 1994 for independent media sources to set up in Uzbekistan.¹¹⁸ The OSCE Representative on Freedom of Media (2002) noted that, of 557 registered newspapers at the time in Uzbekistan, only 84 were commercial and two religious; all others were published by the state or by public institutions. Similarly, of the 165 registered magazines, 106 were state-controlled. Although there are many privately-owned media outlets in Uzbekistan, there are almost no major legal opposition media outlets, and those that do take a more critical tone have tended to encounter problems.¹¹⁹ It is very difficult for critical media outlets to register and stay registered. Consequently, the major opposition parties, Birlik and Erk, print newspapers outside Uzbekistan and smuggle them into the country (thus exposing themselves to criminal charges), and also run websites from outside the country, which are often blocked in Uzbekistan by the authorities.¹²⁰

Until mid 2002, the government controlled media content through the State Press Committee—in practice, Uzbekistan's media censor. This body was transformed into the Agency for Media and Information and its role as censor was officially abolished,¹²¹ with responsibility for media content handed to the individual editors and proprietors.¹²² Formally, the new body is specifically prohibited from censoring the media; instead, its role is to ensure 'freedom of speech and the press' and to 'monitor the observation of constitutional rights and laws'.¹²³ It also has responsibility for registering media outlets.¹²⁴ The change is not expected to make much difference to media freedom because editors and proprietors will continue to self-censor the material they publish to avoid government ire.

There are informal factors too. The authorities readily apply violence and court proceedings based on dubious grounds to intimidate or eradicate critical voices. Probably the most notorious example of this is the arrest and imprisonment of Ruslan Sharipov on charges of sodomy and interfering with minors. What sets the Sharipov case apart, however, is that sodomy remains a crime in Uzbekistan and Sharipov is openly homosexual (*BBC Monitoring Former Soviet Union*, 14 August 2003). Other journalists have been arrested on far more tenuous charges.¹²⁵ Critical journalists are sometimes violently attacked. In a recent example, Yusuf Rasulov, Khusniddin Kutbitdinov and Mirasror Akhrorov all local reporters for international news agencies, were attacked by a group of people while covering a protest in Tashkent, in what appears to have been a set-up (RFE/RL Press Release, 10 March 2003, *Agence-France Presse*, 7 March 2003). Robiya Yuldasheva was threatened in her home by a masked man. Similarly, a gang broke in to the home of Evgeniy Dyakonov and, finding him not at home, decided to beat up some of his relatives instead. Interfax reporter Sergei Grebenyuk was killed and dumped in a canal in Tashkent (Committee to Protect Journalists 1996). Emin Usman, a well-known writer was arrested in 2001 on charges of 'disseminating documents threatening...social security', and died while in custody. Suicide—or 'cerebral tumour', depending on which official is doing the talking—was the official cause of death, but torture the more probable (Ponomarev 2001:n.p.).

As a consequence of the intimidation, legal or otherwise, the Uzbek press is heavily repressed, and those critical voices that remain are hampered by the threat of violence and imprisonment. The Constitutional guarantee of freedom of expression is insufficient

to protect journalists, and is contradicted by government practice, which aims consistently to quell dissent.

5.6.4 Rule of law

Uzbekistan's Constitution formally provides for a judiciary independent of the executive and the legislature.¹²⁶ The report of the Central and East European Law Initiative Report on Uzbekistan summarises concisely and damningly the actual situation there:

Judges are generally unwilling to protect individual liberties, are dominated by the President and procuracy, and only rarely decide cases against the interests of the state. Corruption is reported to be rampant. Low salaries, lack of secure tenure and non-transparent methods of appointing, disciplining, and removing judges contribute to these problems. On the positive side, Uzbekistan has relatively strong procedures in place for training judges and ensuring they know the law (ABA/CEELI 2002).

There are three judicial hierarchies in the Uzbek system, excluding the military court system: local-level courts (Courts of General Jurisdiction), regional-level courts, and the Supreme Court. The lower courts deal with most criminal, civil and administrative matters, and the Supreme Court is the highest court of appeal in this stream.¹²⁷ There are also local-level economic courts and a Higher Economic Court; these deal mostly with disputes between business entities (including state-owned businesses). The Constitutional Court scrutinises the constitutionality of legislation (ABA/CEELI 2002).¹²⁸

Although the legal structure provides for judicial independence,¹²⁹ the Uzbek judiciary is not considered independent. There are two main reasons for this: the appointment system and the hazards of deciding against the authorities. Judges of the Supreme, Higher Economic and Constitutional courts are nominated by the president and appointed by the Oliy Majlis.¹³⁰ As we have seen, the Oliy Majlis is hardly a constraint on the president, so this amounts to direct presidential appointment. Lower court judges are appointed by the president on the basis of a joint proposal by the Minister of Justice and the President of the Supreme Court or Higher Economic Court—all, of course, appointed by the president.

The president can propose for ratification by the Oliy Majlis the dismissal of judges of the Supreme and Higher Economic courts,¹³¹ and can dismiss lower court judges in accordance with representations from the Minister of Justice with the concurrence of the President of the Supreme Court or Higher Economic Court.¹³²

The Uzbek system, like the other Central Asian systems, could conceivably work if the supposed systemic 'checks and balances' worked. They do not. Hence, the system does not. It can be, and is, used only to the advantage of those in power.

5.7 DISCUSSION AND CONCLUSION

This chapter has reviewed developments in the political sphere in Central Asia, concentrating on elections, political contestation, freedom of the media and rule of law. The Central Asian republics, collectively, have not performed well in these aspects of democracy. Freedom House, for example, argues that all of the Central Asian republics are not free and, with the exception of Kyrgyzstan, which was rated 'partially free' in the

early years of the transition, have been so since gaining independence (Freedom House 2003). There is, of course, variance in the severity of authoritarianism in the region, with Kyrgyzstan and Kazakhstan at the softer end, Tajikistan in the middle, and Uzbekistan and Turkmenistan at the harder end. In the best cases, Kyrgyzstan and Kazakhstan, elections are highly dubious: opposition politicians are allowed but find it difficult to operate. In the worst cases, no credible opposition politicians are permitted to take part. The same is true of political contestation. In Kazakhstan and Kyrgyzstan, opposition politicians are intimidated by official and unofficial violence and legal harassment. In the other republics, this kind of intimidation can take more extreme forms, the worst example being Turkmenistan, where many opposition politicians have disappeared and most others have fled into exile.

The media face a similar situation. Although the republican constitutions provide for freedom of expression, expression is nowhere free in Central Asia. There are, of course, some differences between the republics in the methods and severity of repression. The Kyrgyz and Kazak authorities prefer to intimidate critical journalists through bureaucratic and procuratorial mendacity, but violence against journalists and media outlets has occurred often. The other republics tend to prefer violent intimidation. No republic in Central Asia is safe for critical journalists, and in some cases—Turkmenistan in particular—the only media critical of the regime are based outside the country.

Judiciaries in all the republics are supposed to be independent and impartial, but in practice none are. Instead they are controlled, through official or unofficial channels, by the presidents and the power structures that surround them. Politically, this further limits the accountability of government, compounding the problems generated by weak political contestation. It also affects the economic situation by generating a perception that judiciaries are not fair or reliable, and this in turn compels people either to provide private legal enforcement or avoid transactions, neither of which have positive social or economic consequences.

The Central Asian republics are not becoming more democratic, and there is nothing to suggest that their leaderships ever intend to make them more democratic. The presidents frequently talk of democracy but are rather less willing to implement it, citing the 'special conditions' in the region, their countries' democratic immaturity, or other convenient excuses. They use these with good reason: they seek alliance with the West, or rely on flows of aid from the West or from multilateral agencies, which expect to hear these words. This external exigency, and little else, prompts the region's leaders to talk this way.

5.7.1 Political reform and economic reform

Political reform and transition. Democratisation was assumed to be a key part of the transition, actually forming a key aspect of some theories of transition. The assumption, however, was not a strong one. Democracy is not necessary for a strong market economy (Singapore and Hong Kong for most of its history are examples of this), nor is it sufficient.¹³³ Papua New Guinea represents a salient example, being a quite robust democracy and yet having an economy distorted by resource wealth poor macroeconomic management.

From a political economy perspective, we can see how unsuited to the Central Asian situation many transition theories were. We cannot talk of a 'window of opportunity' in these countries—no such window has yet opened. We cannot talk of radical reform removing the old bureaucracy or elite—they are precisely the people now in power in the republics, and they are the ones who have introduced such reform as has occurred (see Chapter 2). Thus, there has been no brief opportunity to be seized by radical reformers. Instead, the transition period in Central Asia has basically been one of political continuity, mitigated by faux democracy and in some cases moderate tolerance of critical voices. Such reform as has occurred, both politically and economically, has been directed towards sustaining this continuity, as we shall see in Chapter 6.

The intersection of political and economic reforms. The relationship between political and economic reform is complex. A number of points need to be made, however, relating to the compatibility of political and economic reform and to the impact of political reform on institutional development.

As the discussion in this and the previous chapter indicates, progress on economic reform is near perfectly correlated with that on political reform in the Central Asian republics. On both fronts, Kazakhstan and Kyrgyzstan are the most advanced reformers, Tajikistan the intermediate, and Uzbekistan and Turkmenistan the slowest reformers. At a basic level, this is probably obvious—governments that seek to retain extensive control over economic activity are also likely to want to retain control over political matters. As noted earlier, democracy is not a necessary condition for a market economy, but the relationship in the other direction is not so clear-cut—increased democratisation would probably spur decreased state control over the economy. Elites in all the republics, but particularly Uzbekistan and Turkmenistan, retain substantial control over those economies because it serves their interests to do so. Control over economic resources—and substantial financial flows—is still held by the state in these republics. Given the opacity of these regimes, this provides substantial scope for personal enrichment and wider political largesse to family and other favoured groups. In such circumstances, true democracy, in which politicians can genuinely expect to be voted out of office, is unlikely to occur because it would expose elite groups to the possibility of losing control over considerable flows of wealth.

In a sense, then, democratisation could spur economic reform.¹³⁴ The possibility of losing power and control over this wealth would likely impel politicians to remove such flows from the public sphere to prevent them being taken up by subsequent governments. In the worst case scenario, obviously, they would privatise it to themselves. While no threat of losing power exists, and hence no chance of losing control of the economic resources concentrated in the state, there is no great incentive for politicians to initiate reforms that would disperse these resources.

Second, the lack of political reform is hampering the development of institutions and good governance.¹³⁵ In the first, and most obvious, sense, governments in the region have subverted legal and judicial systems to serve their own interests. The courts are pliant, and bureaucracies subservient, which limits the authority of these institutions. If judicial systems are perceived to be unfair or interested only in serving the elite, people will avoid relying on or using them. As noted earlier, however, such institutions are critical to the

proper functioning of a market economy—they enforce the ‘rules of the game’. Where they are weak, transactions become more costly and economic activity is retarded (North 1993). In this respect, the issue is not so much a lack of democratisation *per se*, but a lack of political reform to make policymaking and bureaucratic processes more transparent, and to make such institutions more independent of the government.

This relates to another factor: accountability. At present there is no functioning mechanism to discipline politicians and public institutions. There is no threat to the political executives of losing office, there is in most cases no check on government and the bureaucracy from a vocal parliament or an independent judiciary, and the critical media are severely repressed. As a consequence, there is no way for citizens to express their dissatisfaction with the structures of power, there is no feedback from individuals and groups regarding the poor performance of political and bureaucratic institutions, and there is no way to prevent political élites abusing office for personal gain (Olson 1993; Sen 1999a, 1999b; World Bank 2000b). While democracies are far from perfect in this regard, where they work properly there is at least some avenue for feedback on government and institutional performance, and some way of constraining politician’s urge to abuse their power. In authoritarian states this is absent; the only limit they face is the threat of revolution.

For this reason, democracy is far more likely than authoritarianism to deliver institutions—regulatory bodies and bureaucracies, judiciaries, and so forth—that function well. It is also more likely to generate public services, such as health, education and utilities, that function properly and reliably because it ties more closely politicians’ continued power to providing these things to the public’s satisfaction. In authoritarian regimes no such disciplining factor exists.

Thus, the argument here is not that democratisation and economic reform necessarily co-exist; indeed, the link between the two is tenuous. Rather, democratisation can provide a complement to economic reform by dispersing control of economic resources away from entrenched political élites, by providing counterbalances in political power, and by introducing disciplining feedback to the exercise of economic and political power by governments and bureaucracies.

5.7.2 The human context of political developments

Turning to the other key theme of the thesis, we may ask: are Central Asians better off now than they were before independence? Has the political situation improved? Notwithstanding the considerable differences in political repression across the Central Asian republics, it is clear that in the best cases little has changed, and in the worst cases there may have been a deterioration in political conditions since the end of the Soviet era. Despite the introduction of formal frameworks for a democratic system in all the republics, elections are nowhere free and fair. Political participation is repressed more or less severely in all the republics, so there is very little scope for competing ideologies or even checks on government power. Similarly, in none of the republics can people safely express and publish opinions that contradict or attack the government. And no judiciary in the region is truly independent from the executive government. At a broad level, this indicates stasis in political developments in the region. At the republican level,

Turkmenistan and Uzbekistan are arguably no freer than under the late-era Soviet Union, and egregious human rights abuses suggest they may actually be worse. In Tajikistan, Kazakhstan and Kyrgyzstan, the answer is not so clear: while the political space has opened up somewhat, there is still little scope for opposition, either from politicians or the media, and the instruments of power remain unaccountable to the populace. There has been little change, other than the occasional formality of casting a vote, in the political situation for the ordinary citizen.

Thus, we may conclude that, in terms of the political situation, the average citizen of Central Asia is probably no better off than under the late-era Soviet Union, and may indeed be worse off.

NOTES

- ¹ Or, as Dononbaev and Naskeeva (2004:n.p.) describe it, '...the state institutions are democratic in form and authoritarian in content'. See also, Gleason (1997b), who describes Central Asian democratic institutions as acquiring a 'showcase quality'.
- ² For example, widespread proxy voting (*Agence-France Presse*, 9 December 1995). See also Buluktaev (2002) and *Reuters*, 20 December 1995.
- ³ For example, Seydakhmet Quttyqadam was charged on 28 July with insulting President Nazarbaev; Akezhan Kazhegeldin was being pursued over charges of tax evasion and was eventually arrested in Moscow on 10 September. Kazhegeldin was barred from participating in the election, prompting his party, the People's Republican Party of Kazakhstan, to boycott the election. The office of parliamentary candidate Daulet Qazybekov was damaged by Molotov cocktail; and other parties were raided by tax officials on 6 October, six days prior to the election.
- ⁴ The examples are too numerous to be repeated here, but include: Petr Svoik, whose hotel room was invaded while he was in Bishkek to attend a conference. Both he and his wife were bashed by the anonymous assailants. Madel Ismailov, who in April 1998 was taken into custody by police and later imprisoned for one year for insulting the president. Kazhegeldin's press secretary was beaten in October 1998, and stabbed and seriously wounded in May 2000 (*Moscow Times*, 27 November 1998; *IPR Strategic Information Database*, 29 May 2000).
- ⁵ For example, both Galymzhan Zhakiyanov and Kazhegeldin have been harassed and prevented from contesting elections under by these kinds of actions.
- ⁶ Article 5, Law of the Republic of Kazakhstan 'On Social Associations'.
- ⁷ *Ibid.*, Article 13.
- ⁸ Article 6, *Zakon Respubliki Kazakhstana 'O Politicheskikh Partiyakh'*.
- ⁹ Article 56, Law of the Republic of Kazakhstan, 'On Elections in the Republic of Kazakhstan'.
- ¹⁰ The fee is established in Article 59, Law of the Republic of Kazakhstan, 'On Elections in the Republic of Kazakhstan'.
- ¹¹ Articles 72 and 88, *Zakon Respubliki Kazakhstan, 'O Vyborakh v Respublike Kazakstan'*.
- ¹² Article 318, Criminal Code of the Republic of Kazakhstan. This translation is provided by the NGO Article 19 (2002a); a Russian language version can be found at <http://pavlodar.com/zakon/>.
- ¹³ For example, Emurat Bapi, editor of *SolDat*, was sentenced to one year's imprisonment under this law in early 2001. More recently, in July 2003, Sagynkali Kapizov, editor of *Altyn Gasyr*, was arrested under this law, but released a month later (*Reporters Without Borders* 2003). Most notoriously, legal harassment and physical intimidation of critical journalist Sergei Duvanov was initiated with criminal charges under the law (Committee to Protect Journalists 2002).
- ¹⁴ For example, the publication *DAT* was fined and subsequently had property expropriated by the state after it was found guilty of 'publishing false information about state officials' in 1998 (*RFE/RL Newslines*, 23 October 1998). *Nachnem s Ponedelnika* faced charges under the same law in August 1999 (*RFE/RL Newslines*, 6 August 1999). *Nachnem s Ponedelnika* faced further charges in January 2001 for publishing allegedly false materials harming the prestige of a sugar refining factory owned by the President's son-in-law, Rakhat Aliev.
- ¹⁵ For example, Oral Saulebay, a leading member of the opposition *Azat* movement, was charged in January 2002 with insulting the dignity and honour of the President at a rally on the Kazak-Uzbek border (*RFE/RL Newslines*, 16 January 2002).
- ¹⁶ Again, a comprehensive list is beyond the scope of this summary, but relevant recent examples include the repeated destruction of Tan TV's broadcasting equipment (*RFE/RL Newslines*, various issues), the intimidation of Irina Petrushova and the staff at *Respublika - Delovoe Obozrenie* (Committee to Protect Journalists 2002), beatings of Tan TV staff, and most recently the beating of Sergei Duvanov, which the Interior Minister bizarrely, but conveniently, attributed to Kazak oppositionists (*RFE/RL Newslines*, 3 September 2002). A concise and rather disturbing summary of just eight months of 2002 can be found in Kalceva (2003).
- ¹⁷ Article 3, Law of the Republic of Kazakhstan 'On the Judicial System and Status of Judges of the Republic of Kazakhstan'. Available online at www.transparencykazakhstan.org.
- ¹⁸ *Ibid.*, Articles 6 and 10.
- ¹⁹ For an extremely thorough analysis of democratisation in Kyrgyzstan, see Anderson (1999). Brief discussions of the short-lived enthusiasm for democracy in the republic can be found in Gleason (1997a), Hiro (1994), Roy (2000) and Anderson (2000).
- ²⁰ Article 43, Constitution of the Kyrgyz Republic. It was argued that, while Akaev had been elected in 1991, he had only been elected once (in the 1995 elections) under the new constitution, which was adopted on 5 May 1993.
- ²¹ For example, the lead-up to the February 2000 parliamentary elections saw the temporary exclusion of the Manas-El, El, Bishkek Dwellers', and Labour-Popular parties for alleged inconsistencies in their registration documents (*RFE/RL Newslines*, 1 December 1999). Kulov's Ar-Namys party was blocked from participating on an election code technicality. El Party leader, Daniyar Usenov, was arrested on 19 January 2000, and tried on 25 January, for alleged

failure to answer a summons in a legal case against him that had previously been thrown out of court (*RFE/RL Newswire*, 25 January 2000). Kyrgyz Ambassador to Turkey and former Speaker of Parliament, Medetkan Sherimkulov, was barred because he had not resided for the three previous years in the district he hoped to contest (*RFE/RL Kyrgyz Report*, 28 January). The Party of the Democratic Movement of Kyrgyzstan was disqualified after a court ruled that its congress had not been quorate (a charge party members denied). Between the first and second rounds of elections, most opposition politicians were prevented from travelling to the regions to campaign by a Central Election Commission ruling that no campaigning could take place until the results of the first round were released. The Commission, however, had not released the results by 4 March, two weeks after the first round, and only a week before the second (*RFE/RL Newswire*, 4 March 2000). Daniyar Usenov was excluded from the run-off elections on the basis of an *allegation* by one of his opponents of inconsistencies in his income declaration. Kulov's campaign manager, Emil Aliev, was arrested three days before the second round on accusations of fraud over a loan taken nearly five years earlier. See OSCE (2000a) for further details.

- ²² 'On Elections in the Kyrgyz Republic', see, for example, Article 17 on 'Transparency in the Activity of Election Commissions'.
- ²³ Articles 46 and 58, 'Constitution of the Kyrgyz Republic'.
- ²⁴ Article 11, 'On Elections in the Kyrgyz Republic'.
- ²⁵ Kulov was already fairly prominent when he stepped down as Mayor of Bishkek on 27 April 1999. On resigning, he launched himself as a major threat to Akaev by denigrating Akaev's leadership and stating '...through your connivance there are actions which do not correspond to democracy and rule of law...' (Reported in *RFE/RL Kyrgyz Report*, 27 April 1999), and subsequently founding the Ar-Namys party to contest the parliamentary and presidential elections. Kulov was initially tried in late June 2000 in a closed session of a military court in Bishkek. His acquittal on 7 August, prompted outrage in pro-government circles, and suggestions that the presiding judge had been bribed. In the resulting furor, the Supreme Court chairman, Akynbek Tilebaliev, was forced to resign on 18 August. On 11 September 2000, the Military Court revoked its decision, and sent the case for retrial in a Bishkek District Court, where Kulov was found guilty, sentenced to seven years imprisonment and stripped of his property.
- ²⁶ Turgunaliyev has a history of criticising Akaev. As a result, he was arrested in December 1995 for insulting him, and received an 18-month suspended sentence. He was arrested again in December 1996 on charges of embezzlement, forgery and abuse of power while Rector of the University of Humanities in Bishkek in 1994, and sentenced to 10 years' jail. The Supreme Court reviewed the case, and dropped all charges except that of abuse of power, for which he was sentenced to four years' imprisonment. He was released after 8 months, in November 1997.
- ²⁷ On 24 November, after the election, the sentence was reduced to 6 years. Akaev granted amnesty to six of Turgunaliyev's co-accused on 28 November, and 'clemency' to him on 20 August 2001, which means that he rather bizzarely served less than one year in prison for allegedly conspiring to assassinate the president.
- ²⁸ The two journalists received suspended sentences banning them from working as journalists or travelling abroad at any time during the subsequent 18 months.
- ²⁹ His sentence was later commuted on appeal to a suspended sentence (Amnesty International 1997). Omurzakov did not get to enjoy freedom for long; he was convicted of libel again in September 1997 for an article critical of the manager of a Bishkek factory (*RFE/RL Newswire*, 30 September 1997).
- ³⁰ The article criticised the Ministry for revoking the registration of the very active Kyrgyz Committee for Human Rights and registering another, more regime-friendly organisation with the same name (*RFE/RL Newswire*, 18 October 2000).
- ³¹ Article 6, Law of the Kyrgyz Republic 'On Mass Media'. See also Law of the Kyrgyz Republic 'On Electrical and Postal Communication'.
- ³² Equivalent to 50 per cent of the minimum wage (refundable if registration refused). Article 9, Law of the Kyrgyz Republic 'On Mass Media'.
- ³³ *Ibid.*, Article 7.
- ³⁴ *Ibid.*, Article 11(1).
- ³⁵ *Ibid.*, Articles 13 and 3.
- ³⁶ *Ibid.*, Article 13.
- ³⁷ For example, on 7 June 2001, Uchkun refused to publish an issue of *Res Publica* because it contained an article, reproduced from the *Guardian* (UK), alleging that Akaev's wife had a financial stake in the Bishkek Hyatt Regency Hotel. *Moya Stolitsa* was refused publication on 19 January 2002 (*RFE/RL Newswire*, 22 January 2002) on the grounds that it had not renewed its contract with Uchkun (later overturned by the Arbitration Court).
- ³⁸ Article 79, Constitution of the Kyrgyz Republic.
- ³⁹ *Ibid.*, Article 79.
- ⁴⁰ *Ibid.*, Article 80.
- ⁴¹ *Ibid.*, Article 82.
- ⁴² *Ibid.*, Article 83.
- ⁴³ *Ibid.*, Article 84.
- ⁴⁴ Consider the opposition newspaper owner-editor, Aleksander Kim, whose paper, *Moya Stolitsa*, was subject to 31 separate legal cases in two years. Contesting all these cases in the first place would place a substantial financial burden on Kim, never mind the subsequent rounds of appeals.
- ⁴⁵ For example, opposition candidates claimed that officials had tried to prevent them gathering signatures in support of Usmon's candidacy (*BBC Monitoring Central Asia*, 2 October 1999; *Dow Jones International News*, 18 October 1999).
- ⁴⁶ See *Reuters*, 'Criticism mounts ahead of Tajik election', 4 November 1999; *BBCNews*, 'Tajik president wins second term', 5 November 1999.
- ⁴⁷ See, for example, 'Bomb hits capital before as tensions mount before election', *Dow Jones Newswires*, 18 October 1999. Also, Usmon's nephew was kidnapped just prior to the election in what was widely seen as a political threat (*BBC Monitoring Newswire*, 28 October 1999).
- ⁴⁸ Russian observers claimed that no major violations had taken place (*BBC Monitoring Former Soviet Union*, 6 November 1999); opposition politicians disagreed (Interfax, *Daily News Bulletin*, 8 November 1999).
- ⁴⁹ Article 28, Constitutional Law of the Republic of Tajikistan 'On elections to the Majlisi Oli of the Republic of Tajikistan'.
- ⁵⁰ *Ibid.*, Article 29.

- ⁵¹ For example, Badriddin Qosimov, Quvvatali Saydaliyev and Jon Muminov were all barred from contesting the election allegedly for breaking campaign rules (*BBC Monitoring Service: Former USSR*, 24 February 2000). Earlier, 53 candidates were barred having allegedly violated the registration procedures.
- ⁵² For example, Khola Abdurahimovich Karimov (*BBC Monitoring Service: Former Soviet Union*, 6 March 2000); Nodir Solijonov, because his supporters allegedly canvassed for him on election day (*BBC Monitoring Central Asia*, 9 March 2000); Communist Party candidate Mahbuba Yusupova and independent Mahmurod Karimov, for violations of the electoral law during registration and on voting day.
- ⁵³ See, for example, *BBCNews* (30 July) for a list of prominent opposition appointments.
- ⁵⁴ Specifically, the 'Council of People's Deputies of the Gorno-Badakhshan Autonomous Oblast, Regional Councils of People's Deputies, Dushanbe City Council of People's Deputies and Representative Assembly of Regional and City Councils of People's Deputies'. Article 24, Law of the Republic of Tajikistan 'On elections of the President of the Republic of Tajikistan'. The Councils of People's Deputies are the local level government, and their chairmen are appointed and dismissed by the President; the other members are elected (Article 69, Constitution of the Republic of Tajikistan).
- ⁵⁵ Article 24, Law of the Republic of Tajikistan 'On elections of the President of the Republic of Tajikistan'.
- ⁵⁶ These were The Democratic Party of Tajikistan (Tehran Platform), the Agrarian Party, the Party of National Unity, the Justice and Progress Party, the Renaissance of Tajikistan Party and the Party of the National Movement of Tajikistan (*RFERL Central Asia Report*, 10 December 1999).
- ⁵⁷ Specifically, the Constitution of the Republic of Tajikistan stipulates that 'Every person is guaranteed freedom of speech, publishing, and the right to use means of mass information. State censorship and prosecution for criticism is prohibited' (Article 30). The Law of the Republic of Tajikistan 'On the Press and other Mass Media' contains similar provisions (Article 2). This section provides a brief overview of the problems faced by the media in Tajikistan; for an extremely detailed analysis of the legal framework of the media sector in Tajikistan, see Article 19 (2002b).
- ⁵⁸ Article 6, Law of the Republic of Tajikistan 'On the Press and other Mass Media'.
- ⁵⁹ *Ibid.*, Articles 9–10 and Article 13.
- ⁶⁰ *Ibid.*, Article 14.
- ⁶¹ *Associated Press*, 9 July 2001; *Agence-France Press*, 10 July 2001; *Associated Press Newswires*, 11 July 2001; *BBC Monitoring Central Asia*, 1 July 2002.
- ⁶² See, for example, *Asia-Plus*, 1 December 2003; *BBC Monitoring Central Asia*, 1 December 2003, *BBC Monitoring Newsfile*, 4 January 2004.
- ⁶³ Article 83, Constitution of the Republic of Tajikistan.
- ⁶⁴ *Ibid.*, Article 89.
- ⁶⁵ *Ibid.*, Article 69.
- ⁶⁶ Most notoriously, Shamsiddin Shamsiddinov, deputy leader of the Islamic Renaissance Party, was sentenced to 16 years' imprisonment allegedly for organising a criminal group, killing civilians and servicemen and possessing illegal weapons (*BBC Monitoring Newsfile*, 15 January 2004). The trial of a further 82 former UTO members ended in February 2003 with all convicted of terrorist activity, murders, and hostage taking, among other things. Nine of them were sentenced to death (*Asia-Plus*, 26 February 2003). A number of other similar cases were heard in the same period. Namoz Qurbonaliev, another former UTO commander, one of those integrated into the Defence Ministry under the terms of the peace agreement, received 25 years' imprisonment for allegedly committing terrorist acts, hostage taking, armed robberies, and so forth (*Asia-Plus*, 22 October 2002). On the other hand, Colonel Mustafo Tagoev, who fought on the government side during the civil war, was also sentenced to 25 years' imprisonment in April 2002, for hostage taking and possession of illegal weapons (*Agence-France Press*, 16 April 2002).
- ⁶⁷ Articles 55 and 56, Constitution of Turkmenistan.
- ⁶⁸ The Khalk Maslakhaty is, according to the Turkmenistan Constitution, the 'highest organ of popular power' (Article 45). It is comprised of the President, Deputies of the Parliament (ie. the Majlis), People's Advisors—one elected from each district—the Chair of the Supreme Court, the Chair of the Supreme Commercial Court, the Procurator-General, members of the Cabinet, heads of regional administrations, chiefs of the municipal councils of towns and villages (Article 48, Constitution of Turkmenistan).
- ⁶⁹ Precisely, Niyazov said: 'Under the Constitution, in 2002 we should have presidential elections and anybody who wishes to become president should now demonstrate his good work performance. I have already served two terms and we should not violate our constitution. Let us consider this issue later' (*BBC Monitoring Service: Former USSR*, 19 September 1998, reporting text of Turkmen Television First Channel 15 September 1998).
- ⁷⁰ By early 2003, Niyazov was again planning elections for 2008–10; and, by August 2003, he was planning them for 2006–07 (*Interfax*, 8 January 2003; *Associated Press*, 14 August 2003). See also, *BBC Monitoring Former Soviet Union – Political*, 9 August 2002; *Agence-France Presse*, 9 August 2002; *ITAR-TASS*, 9 August 2002.
- ⁷¹ *BBC Monitoring Service: Former USSR*, 29 November 1994; *Reuters News*, 10 December, *BBC Monitoring Service: Former USSR*, 15 December 1994.
- ⁷² *Reuters News*, 14 January 2003; *IPR Strategic Information Database*, 19 January 2003.
- ⁷³ Ekho Moskvyy radio broadcast; reproduced in *BBC Monitoring Central Asia*, 8 January 2003.
- ⁷⁴ *Reuters News*, 13 February 2002. See also Rashid (2002), and Olcott (2003).
- ⁷⁵ *Reuters News*, 14 March 2002; *BBC Monitoring Newsfile*, 6 May 2002. For example, Mukhammed Nazarov, head of the National Security Committee, was first sacked then put on trial for abuse of power, then sentenced to 20 years in jail (*Reuters News*, 19 June 2002).
- ⁷⁶ *Reuters News*, 13 June 2002; *WMRC Daily Analysis*, 4 November 2002.
- ⁷⁷ Reports pointed out inconsistencies in accounts of what happened. For example, Niyazov was reported as saying that he had been driving his car at the time, and had noticed nothing at all until he arrived at work, but he was nonetheless able to describe in detail what had happened. But this detail contradicted his earlier assertion that a truck had blocked his car before gunmen opened fire. See especially OSCE Rapporteur (2003); and also *BBC Monitoring Former Soviet Union*, 25 November 2002 and *BBC Monitoring Former Soviet Union*, 1 December 2002.
- ⁷⁸ Shikhmuradov appeared puffy-faced on Turkmen television and, slurring his words, delivered a confession that he had tried to kill Niyazov, stating that: 'We are a criminal gang in the Mafia. There is not one normal person among us. We are all nonentities...The opposition, of which I have spoken in the past, does not exist. My allies and myself are not members of an opposition but common criminals, drug users who are willing to undertake anything for money' (Russian Channel One TV, 30 December; reproduced in *BBC Monitoring Former Soviet Union*, 30 December 2002; *Dow Jones Newswires*, 3 December 2002; *Agence-France Presse*, 29 December 2002). See also Olcott (2003).

- ⁷⁹ For example, www.gundogar.org, which is associated with Boris Shikmuradov.
- ⁸⁰ Articles 4 and 101, Constitution of Turkmenistan.
- ⁸¹ *Ibid.*, Article 100.
- ⁸² *Ibid.*, Article 102.
- ⁸³ *Ibid.*, Article 57.
- ⁸⁴ *Dow Jones International Newswires*, 29 August 1996; *BBC Monitoring Central Asia*, 8 January 1999; 9 September 1999.
- ⁸⁵ *Reuters*, 25 March 1995; *Financial Times*, 27 March 1995; *Dow Jones Newswires*, 19 August 1999.
- ⁸⁶ BBC Monitoring Service: Former USSR, 28 February 1995; *Reuters*, 24 February 1995.
- ⁸⁷ *The Times*, 27 March 1995.
- ⁸⁸ Uzbek Radio first program, 2 December 1999. Reproduced in *BBC Monitoring Central Asia*, 2 December 1999.
- ⁸⁹ *Agence-France Presse*, 6 January 2000, 9 January 2000.
- ⁹⁰ *Reuters*, 6 January 2000.
- ⁹¹ *Interfax*, 27 January 2002.
- ⁹² Kabar News Agency of Kyrgyzstan, 4 February 2002. See also, *Narodnoye Slovo*, 3 April 2002. Reproduced in *BBC Monitoring Central Asia*, 3 April 2002.
- ⁹³ *BBC Monitoring Service: Former USSR*, 25 November 1994; *Reuters*, 22 December 1994.
- ⁹⁴ *Reuters*, 22 December 1994.
- ⁹⁵ *BBC Monitoring Service: Former USSR*, 29 December 1994.
- ⁹⁶ *Rossiskaya Gazeta*, 18 January 1995, reproduced in *BBC Monitoring Service: Former USSR*, 25 January 1995.
- ⁹⁷ Itar-Tass News Agency report, 12 October 1999, reproduced in *BBC Monitoring Service: Former USSR*, 14 October 1999; *Interfax Central Asia News*, 16 October 1999.
- ⁹⁸ Report on Uzbek TV, 21 October 1999. Reproduced in *BBC Monitoring Central Asia*, 21 October 1999. Report on Uzbek TV, 31 October 1999, reproduced in *BBC Monitoring in Central Asia*, 31 October 1999. *Reuters*, 4 December 1999. It should not be assumed that the independent candidates oppose the president.
- ⁹⁹ *Interfax*, 23 November 1999.
- ¹⁰⁰ *Agence-France Presse*, 6 January 2000.
- ¹⁰¹ Article 3, *Zakon Respubliki Uzbekistan 'O politicheskikh Partiyakh'*.
- ¹⁰² *Ibid.*, Article 8.
- ¹⁰³ *Ibid.*, Article 4.
- ¹⁰⁴ *Ibid.*, Article 9.
- ¹⁰⁵ *Ibid.*, Article 10.
- ¹⁰⁶ Articles 20–21, *Zakon Respubliki Uzbekistan 'O vyborakh v Oliy Majlis Respubliki Uzbekistan'*.
- ¹⁰⁷ *Ibid.*, Article 23.
- ¹⁰⁸ *Ibid.*, Article 25.
- ¹⁰⁹ Article 24, *Zakon Respubliki Uzbekistan 'O vyborakh presidenta respubliki Uzbekistan'*. Specifically, the representative organs of government are the *Zhokargy Kenes* of Karakalpakstan, *oblast* councils and Tashkent city council.
- ¹¹⁰ *Ibid.*, Article 24(2).
- ¹¹¹ *Ibid.*, Article 24(2).
- ¹¹² *Ibid.*, Article 26.
- ¹¹³ Article 159, 'Ugolovnyy kodeks respubliki Uzbekistan'.
- ¹¹⁴ *Izvestiya*, 11 November 1993; reproduced in *BBC Monitoring Service: Former USSR*, 13 November 1993.
- ¹¹⁵ Articles 12 and 14, *Zakon Respubliki Uzbekistan 'O sredstvakh massovoy informatsii'*.
- ¹¹⁶ *Ibid.*, Article 15.
- ¹¹⁷ Article 158, 'Ugolovnyy Kodeks Respubliki Uzbekistan'.
- ¹¹⁸ All media outlets were required to re-register in 1994. The media had achieved some independence and outspokenness in the final years of the Soviet Union, but this was eliminated under the 1994 registration. *Segodnya*, 11 January 1994; reproduced in *BBC Monitoring Service: Former USSR*, 24 January 1994.
- ¹¹⁹ For example, two regional TV stations—ALC and Aloka A.K.; both of which had grown outspoken—were refused re-registration in 1999 for spurious and inconsistent reasons (*BBC Monitoring Media*, 28 January 2000).
- ¹²⁰ *BBC Monitoring Former Soviet Union*, 13 January 2004.
- ¹²¹ *Ibid.*
- ¹²² *BBC Monitoring Media*, 24 April 2003.
- ¹²³ *Interfax Central Asia News*, 25 July 2002:n.p.
- ¹²⁴ *IPR Strategic Information Database*, 18 August 2002.
- ¹²⁵ Again, there is not enough space to detail individual events here. A useful summary is provided by the Centre for Journalism in Extreme Situations at www.cjes.ru. Other useful guides are provided by the Committee for Protection of Journalists (www.cpj.org) and Reporters Without Borders. Examples, however, include Madjid Abduraimov, charged with corruption and sentenced to 13 years in prison; Tura Kobilov, accused of taking a bribe (of US\$4); Shukhrat Babadzhonov, charged in 2001 with forging documents for membership of the Union of Artists of Uzbekistan in 1991; Oleg Sarapulov, executive director of the Union of Independent Journalists of Uzbekistan, apparently arrested for vagrancy in March 2002; Sobirzhon Ergashev, charged with extortion after writing articles about corruption among local government officials; Mutabar Tadzhibaeva, charged with 'disturbing societal order'; Lutfullo Mamasoliev, charged with corruption (Centre for Journalism in Extreme Situations, n.d.).
- ¹²⁶ Article 11, Constitution of the Republic of Uzbekistan. Judicial independence is also provided for by Article 112.
- ¹²⁷ Article 12, *Zakon Respubliki Uzbekistan 'O sudakh'*.
- ¹²⁸ See also Articles 106–111, Constitution of the Republic of Uzbekistan.
- ¹²⁹ *Ibid.*, Article 106; Article 2, *Zakon Respubliki Uzbekistan 'O sudakh'*.
- ¹³⁰ Articles 93 and 78, Constitution of the Republic of Uzbekistan.
- ¹³¹ *Ibid.*, Article 93; Article 72, *Zakon Respubliki Uzbekistan 'O sudakh'*.
- ¹³² Article 72, *Zakon Respubliki Uzbekistan 'O sudakh'*.
- ¹³³ See, for example, Helliwell (1994).
- ¹³⁴ Evidence from the transition region in support of this proposition is provided by *inter alia* Fidrmuc (2003); Dethier et al. (1999); and Frye and Mansfield (2004).
- ¹³⁵ This is in line with the arguments advanced by World Bank (2002a).

6 MACROECONOMIC PERFORMANCE

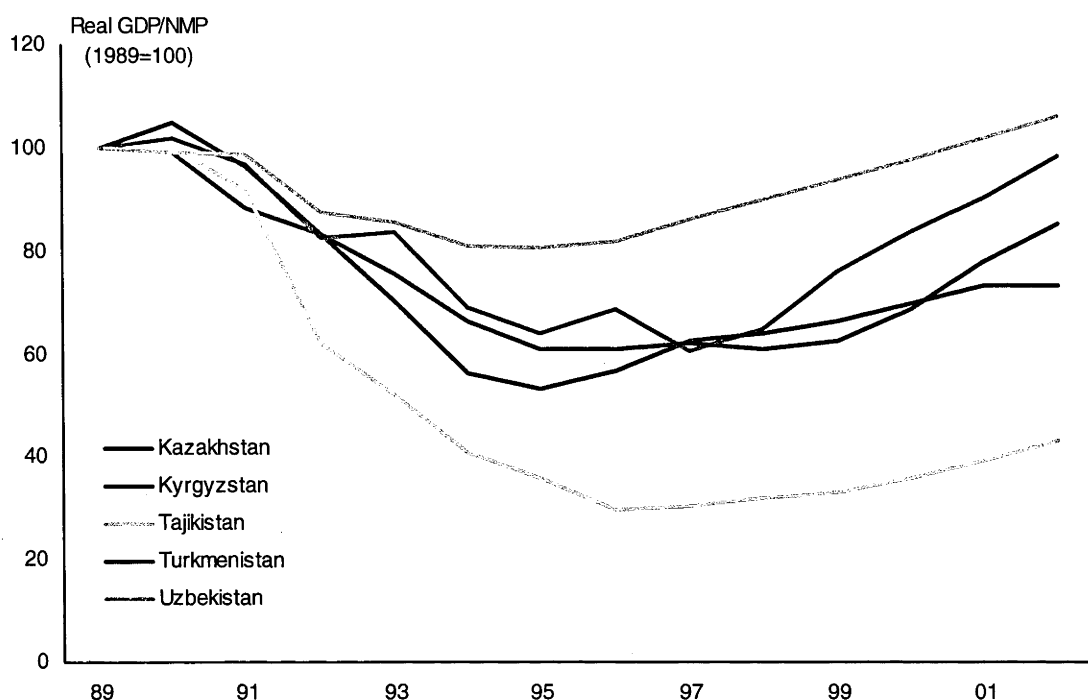
From Eastern Europe to Central Asia, the transition period has been associated with extreme macroeconomic instability. Massive contractions in economic activity were accompanied by extended outbreaks of severe hyperinflation and worsening external balance. The transition period, as a result, would appear to the ordinary person in the region to be one of inexplicable and unanticipated economic chaos, in which none of the certainties of the Soviet era remained. As Chapter 3 showed, however, economists have advanced a number of theories to explain both the output collapse and the inflationary surge. The peculiar economic circumstances in Central Asia, discussed in Chapter 1, mean that macroeconomic instability there—in terms of output and inflation—has been associated foremost with economic structure and the region's geographic constraints.

6.1 OUTPUT DECLINE IN CENTRAL ASIA

In Chapter 3, a number of theories were outlined which seek to explain the output decline in transition economies. These ranged from supply-side to demand-side and institutional theories of output behaviour. This chapter will analyse economic outcomes specific to the transition in Central Asia and place them in the context of the framework detailed in Chapter 3. It will find that the most plausible explanation for the varied GDP profiles in Central Asia relates to their economic structure and their relative dependence on the maintenance of trading relationships and markets for their products. This emphasises the explanations provided by theorists such as Blanchard and Kremer (1997) and Kornai (1994). In making these arguments, however, I do not seek to undervalue the importance of institutional change, trade reform, and democratisation in the economic and political development of these countries.

In terms of output levels, the most striking thing is the divergence in the republics' performance in the period 1989–99—while all the republics experienced GDP declines, the scale and profile of their declines varied greatly (Figure 6.1). Tajikistan, clearly, had by far the worst fall in GDP during the transition period. Uzbekistan represents the opposite extreme, suffering only a limited fall in GDP—the best performance in the region and one of the best among all the transition economies. Kazakhstan, Kyrgyzstan, and Turkmenistan shared declines of roughly the same extent, performing better than Tajikistan but worse than Uzbekistan. That the more advanced reformers, Kazakhstan and Kyrgyzstan, only performed as well as or worse than Uzbekistan and Turkmenistan, two of the transition region's slowest reformers, seems at first blush to throw into doubt the claims of the more exuberant proponents of radical reform. But this should not be seen as

Figure 6.1 Real GDP/NMP, Central Asian republics, 1989–2002 (Index 1989=100)



Source: UNECE, various years. 'Statistical appendix', *Economic Survey of Europe*, United Nations Economic Commission for Europe, Geneva.

vindicating the claims of the 'gradualists'. Explanations of differing GDP performance are, as noted above, not to be found in reform speed or approach; instead they are rooted in country-specific conditions—economic structure, external constraints, leading export goods, and political stability.

6.1.1 Uzbekistan: shallow decline with little reform

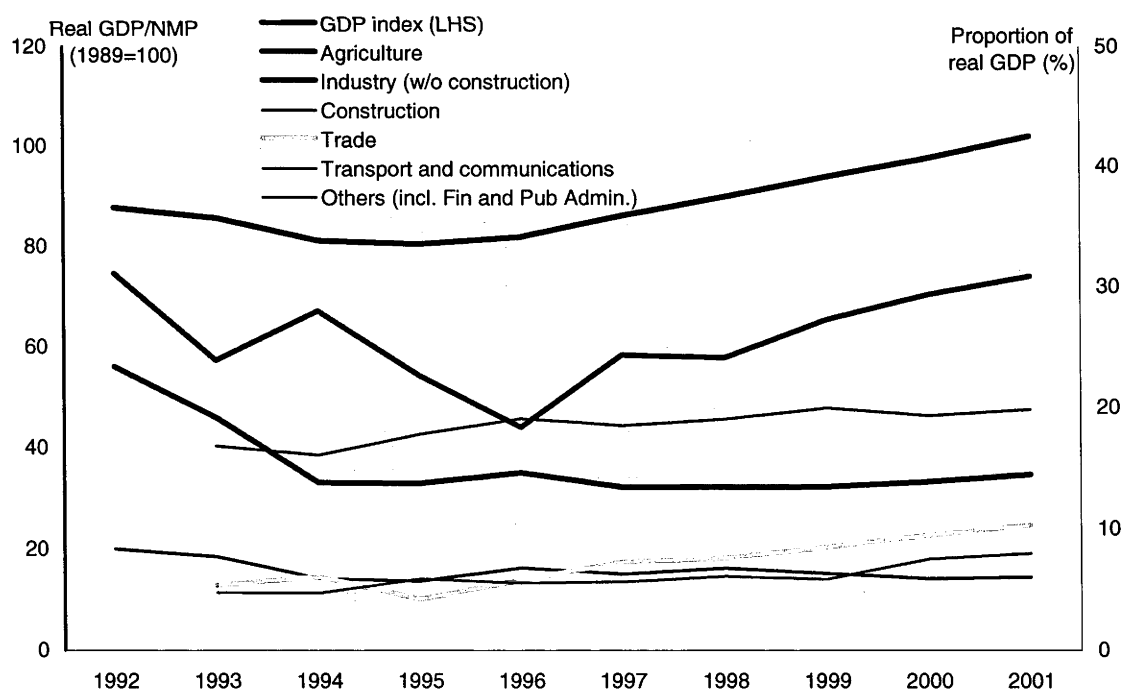
Uzbekistan has clearly suffered the smallest and shallowest output decline in the region. At its nadir, Uzbekistan's output level, according to statistics produced by the UNECE, reached 80.5 per cent of its 1989 level. As was shown in Chapter 4, reform in Uzbekistan has not been particularly rapid or radical. In fact, it has been limited, occasional and subject to some reversals. Thus, Uzbekistan's relatively shallow output decline and eventual recovery—which has been remarkable in the region, but also throughout the transition countries—over the course of the decade cannot be ascribed to a radical approach to economic reform. This has prompted something of a search for explanations as to why Uzbekistan has performed relatively well. Taube and Zettelmeyer (1998) and Zettelmeyer (1998), in a strong attempt to counter the gradualist position, argue that the stability of output in Uzbekistan is not due to the explicitly gradualist economic policy adopted there, but rather to the pure good fortune of having readily exportable products available which could command relatively high prices on world markets during the transition period.

Looking more closely at the sectoral breakdown of GDP, it is clear that the GDP decline in Uzbekistan up until 1995 was driven predominantly by declines in both

agricultural and industrial production. While the industrial sector has remained moribund, renewed GDP growth has been driven by recovery in the agricultural sector and to a lesser extent by growth in trade (Figure 6.2). A number of developments are in play here. First, Uzbekistan's major export product, cotton, was little influenced by the collapse of supply chains within the former Soviet Union because it could be rapidly redirected to trade on world markets. That said, Uzbek cotton production in fact fell slightly in the transition period, but this was offset, albeit briefly, by favourable world cotton prices in the mid 1990s and improved terms of trade in the shift from Soviet prices (Baffes 2004). Second, gold was a major component of Uzbekistan's industrial production, and its primary industrial export. It too was little affected by the collapse in Soviet trading networks because it could simply be redirected to world markets, generating hard currency income for the country. Both major exports lie at the base of manufacturing processes and, not being as highly specified as manufactured goods, are not as vulnerable as more refined products to the decline in demand resulting from the collapse of the Soviet industrial sector and trade networks.

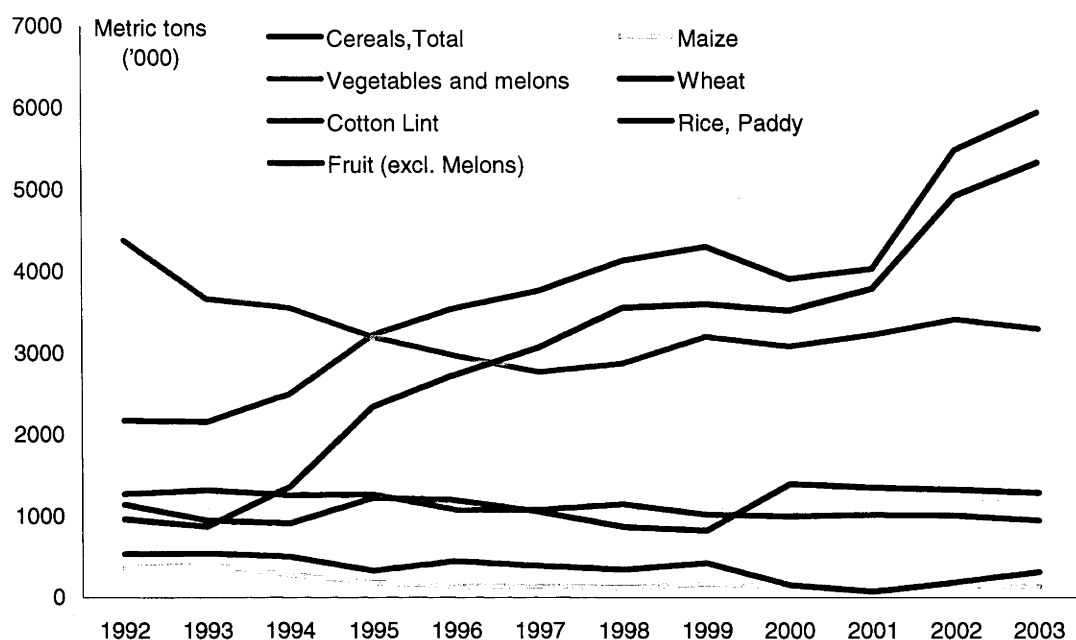
The sector in Uzbekistan that was bound into Soviet production networks—the non-extractive industrial sector—declined from its 1989 level and has not recovered in spite of government subsidies and protectionism. Some industrial recovery, however, has been driven by growth in construction.

Figure 6.2 Uzbekistan: sectoral dynamics in GDP decline and recovery, 1992–2001



Sources: UN Economic Commission for Europe, 2003. 'Statistical Appendix', *Economic Survey of Europe*, 1:224. Asian Development Bank, 2002. *Key Indicators 2002*, Asian Development Bank, Manila

Figure 6.3 Uzbekistan: agricultural production, 1992–2003



Source: FAOSTAT data, 2004.

Table 6.1 Uzbekistan: the role of cotton exports, 1993–99

	1993	1994	1995	1996	1997	1998	1999
Cotton exports (% of total exports)	40.7	51.3	45.6	43.5	37.6	41.5	..
Cotton yield (tons/hectare)	2.5	2.6	2.6	2.3	2.4	2.1	2.4
Wheat yield(tons/hectare)	1.0	1.4	2.0	2.1	2.1	2.6	2.6

Source: International Monetary Fund, 1999. *Republic of Uzbekistan: recent economic developments*, IMF Staff Country Report 00/36, International Monetary Fund, Washington, DC.

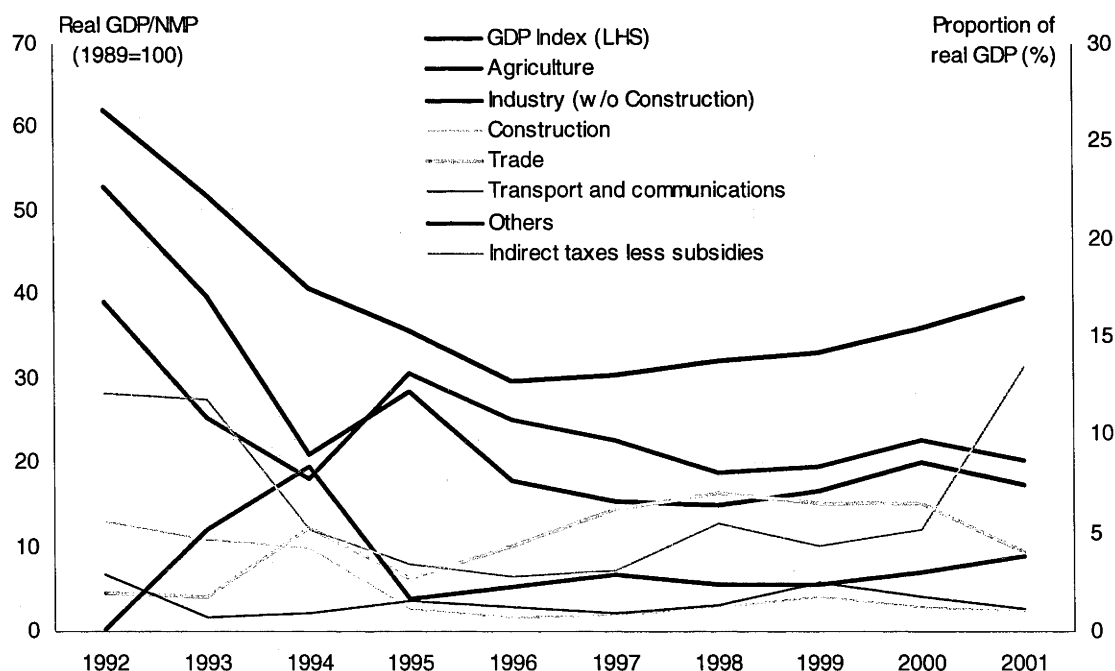
One further note needs to be made about decline and recovery in Uzbekistan. Uzbekistan has tried to pursue a policy of self-sufficiency, directing the hard currency earned by cotton and gold exports to support domestic industry and increase the country's domestic food supply. In this respect, the government has sought to increase the production of grain to decrease the country's reliance on imports. As a result, agricultural growth, the primary contributor to GDP growth in post-Soviet Uzbekistan, has not been through increased production of cotton itself, which as noted above has actually decreased, but by the rapid growth of grain cultivation (Figure 6.3). Cereal production, predominantly wheat, has more than doubled during the post-Soviet period. Interestingly, fruit and melon production, in which the country historically had a comparative advantage, has not grown in this period—testament perhaps to the government-driven nature of this change.

This overall scenario fits in well with the theories advanced by Kornai (1994) and Blanchard and Kremer (1997). Uzbekistan was largely able to avoid the disorganisation that accompanied the collapse of trading relations during the transition period, and hence did not suffer anywhere near the decline seen elsewhere in the CIS. Existing production could be simply redirected to world markets at little cost in terms of capacity-building—which requires time and investment—leaving producers relatively unaffected by the change in circumstances (IMF 2000c).¹ Uzbekistan's stability has derived from a unique set of circumstances: it had relatively little dependence on all-Union production processes; its major products, especially cotton and gold, could be readily directed to world markets; and the hard currency gained from cotton and gold sales could be re-allocated to slow the collapse of the industrial sector. Because Uzbekistan has been such a slow reformer, we can safely say that radical reform has played no role in either the shallowness of the decline or the subsequent recovery.

6.1.2 Tajikistan: civil war and postponed reform

Tajikistan has suffered the most severe and prolonged output decline in Central Asia, and among the worst in the entire transition region (Figures 6.1, 6.4). The extended civil war, continuing problems with regional neighbours (both Afghanistan and to some extent Uzbekistan), and mass movements of refugees have all disrupted economic activity and contributed to collapse. At its lowest, in 1996, Tajikistan's GDP reached around 30 per cent of its 1989 level.

Figure 6.4 Tajikistan: sectoral impacts on real GDP dynamic, 1992–2001



Sources: UN Economic Commission for Europe, 2003. 'Statistical Appendix', *Economic Survey of Europe*, 1:224. Asian Development Bank, 2002. *Key Indicators 2002*, Asian Development Bank, Manila.

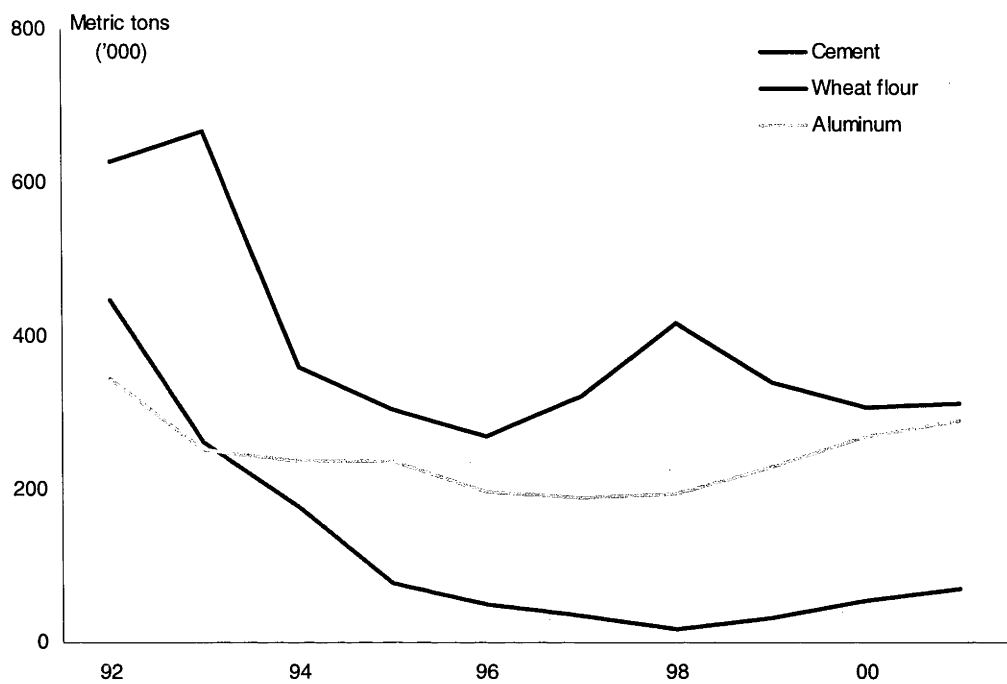
As noted in Chapter 4, reform in Tajikistan was delayed by the incapacity of the state to properly implement its reform program. Thus, it could easily, but erroneously, be argued that Tajikistan's post-Soviet economic performance is associated with a lack of reform. In truth, however, the GDP decline was prompted by falls in both agricultural and industrial production (see Figure 6.4), which suggests an across-the-board economic catastrophe that was mostly likely a consequence of the civil war. The war had a number of economic impacts—it disrupted production by making economic activity more dangerous, it drew labour and scarce investment funds away from productive uses, and it cut supply and transport networks, leaving people unable to source supplies or take products to market.² It also impinged on the state's capacity to enforce and regulate economic activity, so legal systems collapsed, regulatory agencies did not function, and bureaucrats and politicians turned to corruption to supplement meagre legal incomes.

It is important to note, however, that Tajikistan's economic problems are not all derived from the civil war. In economic terms, Tajikistan can be seen as the opposite of the situation in Uzbekistan—it had a poor endowment at the beginning of the transition and faced severe external constraints. In terms of external constraints, Tajikistan has uniquely difficult transport conditions. Road links to the outside world are dangerous, subject to banditry, and often cut by snow during winter. Rail links with the rest of the CIS, and hence the world, are similarly problematic as they pass close to the Afghan border and through Uzbekistan, whose authorities have frequently shut them down for security reasons. Flights are infrequent, highly expensive, and generally only travel to other CIS countries, which means that any goods exported in this way have to be off-loaded and shipped on after arrival in the CIS country.

Tajik industry is dominated by a single aluminium smelter. While aluminium production has been relatively stable, it has not been a very strong contributor to economic growth and has not been successful in attracting large amounts of hard currency in the way that Uzbekistan's cotton production has. The smelter is a clear product of the Soviet system, which is the source of most of its problems. In the Soviet era, bauxite was mined elsewhere in the Soviet Union or imported, and processed into alumina in plants located in Ukraine, Russia, or Kazakhstan. The alumina was then transported to Tajikistan for further refining into aluminium before being transported all the way back to the rest of the USSR, including the European republics, for eventual sale. Little has changed in the post-Soviet era. The smelter is forced to import alumina for processing as Tajikistan has no economically viable natural bauxite deposits of its own and no alumina processing plant. Thus, even though Tajik aluminium is sold on international markets, roughly 45 per cent of the revenue earned must be sent on to alumina suppliers elsewhere, predominantly a plant in Ukraine (Table 6.2). The finished aluminium is then transported back across the CIS to markets in Western Europe.

The Tajik aluminium industry was therefore particularly vulnerable to external shocks, and these shocks inevitably occurred. First, rail links to Tajikistan were closed in 1992, cutting supplies of alumina and other raw materials and consequently causing the smelter shut down (*Financial Times*, 20 November 1992, 11 December 1992). It would not have mattered, however, had the plant sufficient reserve supplies because the closed rail link prevented finished aluminium from being exported anyway. Second, in 1993–94, the

Figure 6.5 Tajikistan: principal industrial products, 1992–2001



Source: Asian Development Bank, 2002. *Key Indicators 2002*, Asian Development Bank, Manila.

Table 6.2 Tajikistan: the role of aluminium, 1993–98

	1993	1994	1995	1996	1997	1998
Export revenue from aluminium sales (per cent of total export revenue)	50.44	55.99	50.06	34.16	33.78	39.93
Alumina import costs as a proportion of aluminium export revenues (per cent)	45.22	45.05	48.21	42.21	42.46	47.01

Source: International Monetary Fund, 2000. *Republic of Tajikistan: recent economic developments*, IMF Country Report 00/27, International Monetary Fund, Washington, DC.

European Community imposed quotas on aluminium imports from the CIS, including Tajikistan, on the basis that cheap aluminium from the former Soviet Union was undercutting world markets. Thus, the value of aluminium exports declined during the 1990s, reflecting these difficulties as well as interruptions due to the civil war (IMF 2000d). Because aluminium plays such a large role in Tajikistan’s exports, and hence economy, any external difficulties can precipitate economic crisis. Consequently, although aluminium production continues, it does not represent the opportunity that Uzbekistan had with its cotton and gold production at the beginning of the transition period.

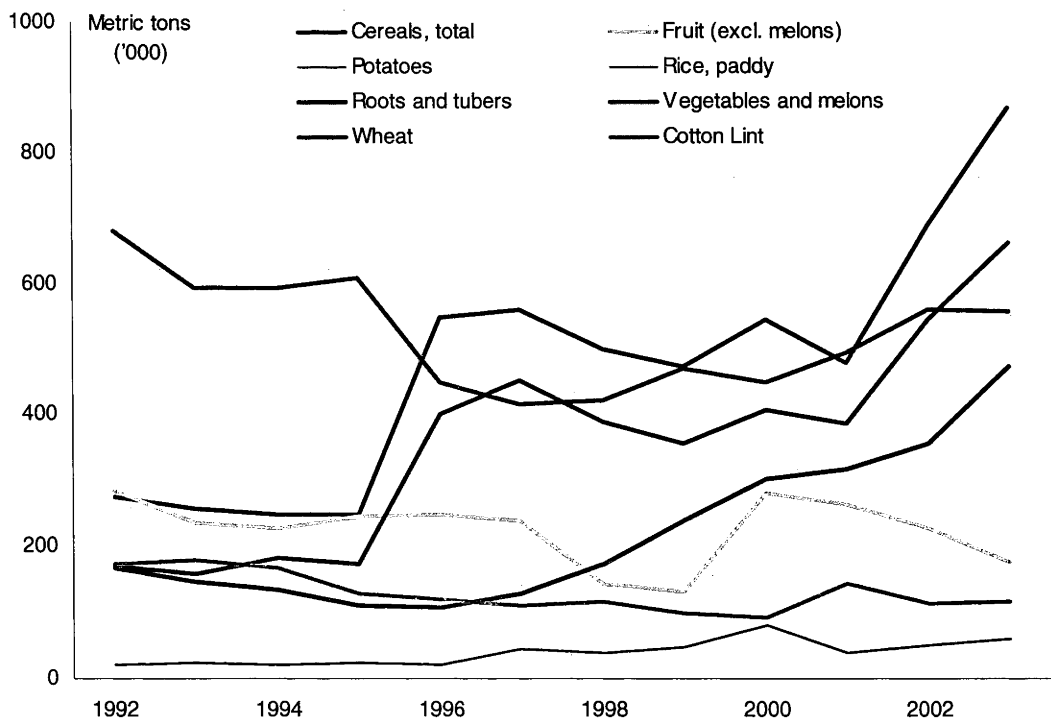
Cotton also plays an important role in Tajik exports, but has not established significant revenue growth. The case of cotton production is more clear-cut than in the industrial sector. Cotton production dropped considerably, only properly recovering around the turn of the century. This has a number of probable causes, primary among which would be the interruptions to planting and harvesting prompted by civil war and the loss of transport networks out of the country. For example, disruptions to transport networks meant that

fuel supplies to cotton harvesters were cut, which meant that harvests had to be gathered by hand. They also meant that exports were frequently interrupted.³ So, again, Tajik cotton was in theory readily exportable to world markets, but production was hampered by civil war and exports by interruptions to trade links. The rapid growth of grain production from 1996 onwards suggests, however, that farmers also began reverting to subsistence grain and food production as soon as possible given unreliable trading conditions (see Figure 6.6). The civil war and its attendant economic dislocation drove this shift, not reform—farmers shifted production in a logical response to the uncertain supply conditions and income flows.

As noted in Chapter 3, many of the production systems in the Soviet Union were highly specified—some factories could source their inputs from only one supplier, and many others had only one potential purchaser—and these production lines often crossed the notional boundaries of the Soviet republics. Tajikistan was highly dependent on raw materials imported from elsewhere in the Soviet Union, and remains highly dependent on imports from the CIS today, notwithstanding efforts to diversify alumina suppliers. When CIS payments systems collapsed, and barriers to trade were erected, the basis for Tajik industry was cut and Tajikistan suffered an exogenous shock that it found difficult to deal with.

It is unlikely that a more aggressive economic reform program would have produced better economic performance given the circumstances. The civil war diverted labour, capital and other resources away from non-military uses and, not surprisingly, has

Figure 6.6 Tajikistan: principal agricultural products, 1992–2003



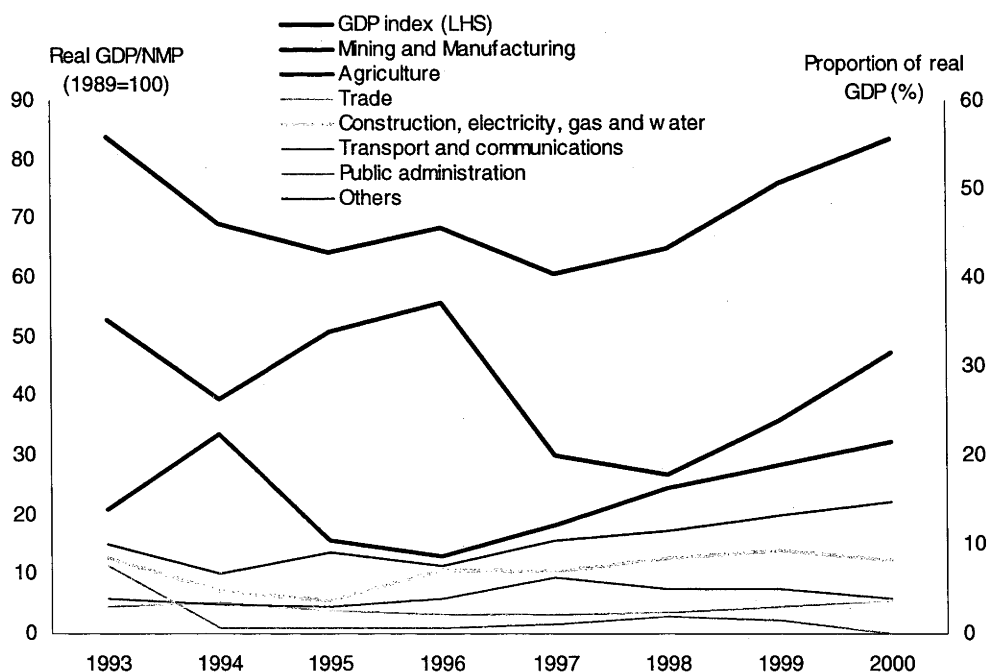
Source: FAOSTAT data, 2004.

occupied more administrative attention than economic matters. In addition, the initial economic endowment represents a critical constraint during the transition. Tajik production was intimately tied into Soviet-era economic processes and relied on the Soviet centre to ensure input supply. When the Soviet Union collapsed, Tajikistan had nowhere to go, and has had to struggle to overcome this unhappy initial constraint through investment in new products and production processes.⁴ Even though cotton and aluminium can be, and is, sold on world markets, poor transport has constrained this severely. Again, the crucial determinant of output decline in Tajikistan was not radical or gradual economic policy. Instead, conditions largely beyond policymakers' control were responsible for the economic outcomes—civil war, a poor resource base, and geographical constraints on exports.

6.1.3 Turkmenistan: confounded expectations

Early in the transition period, many observers (for example, Pomfret 1995; Tarr 1994) expected Turkmenistan to be able to exploit its major asset, extensive natural gas reserves, and thereby ensure output stability. This has not happened; the decline in Turkmenistan's GDP has been almost as severe as that experienced by the comparatively more rapid reformers, Kazakhstan and Kyrgyzstan (Figures 6.1, 6.7). Decreased agricultural output and intermittent declines in industrial production have driven the overall decline in GDP in the transition period. If we are to believe the Turkmen statistics—and there is ample reason not to—the recovery has similarly been driven by renewed growth in the industrial and agricultural sectors (Figure 6.7).

Figure 6.7 Turkmenistan: sectoral influence on real GDP, 1993–2000



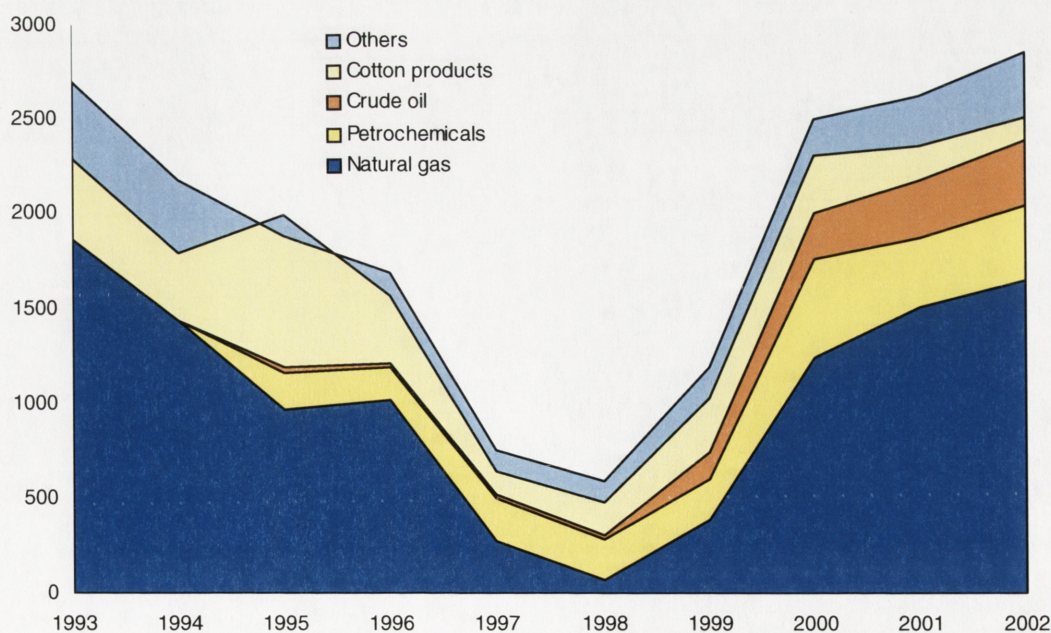
Sources: UN Economic Commission for Europe, 2003. 'Statistical Appendix', *Economic Survey of Europe*, 1:224. Asian Development Bank, 2002. *Key Indicators 2002*, Asian Development Bank, Manila.

Looking beyond this broad scale, we may ask what exactly has happened here. Why have the predictions of Turkmen stability not been borne out? Natural gas is a relatively, though not completely, 'homogenous' product. As such, production of natural gas should, all other things being equal, be easy to redirect to satisfy world demand rather than just demand within the post-Soviet markets. In short, the demand for Turkmen natural gas was theoretically not particularly subject to the collapse in demand within the former Soviet Union. For Turkmenistan, given its initial endowment, the transition represented an obvious opportunity.

Sadly, all other things have not been equal. Turkmenistan's ability to export natural gas has been hampered by external factors. It has been constrained in its ability to actually export natural gas by Russian and Ukrainian unwillingness to allow Turkmen gas through Soviet-built pipelines at anything approaching a proper market price.⁵ Furthermore, where it has been physically able to export gas through these pipelines, it has often encountered problems being paid in return, with the Ukraine and Georgia the most egregious non-payers (IMF 1999b). According to statistics collated by the IMF, Turkmenistan's export revenues from natural gas were cut by two-thirds between 1996 and 1997, falling from US\$1021.9 million in 1996 to US\$27.3 million in 1997 and US\$71.7 million in 1998 (IMF 1999b: 118). This has been only slightly offset by increases in crude oil production and exports (Figures 6.8–6.9). Clearly, when natural gas exports are strong, the Turkmen economy is strong, when they are weak, the economy nosedives. Thus, the Turkmen economy is particularly sensitive to externally imposed shocks to transport conditions.⁶

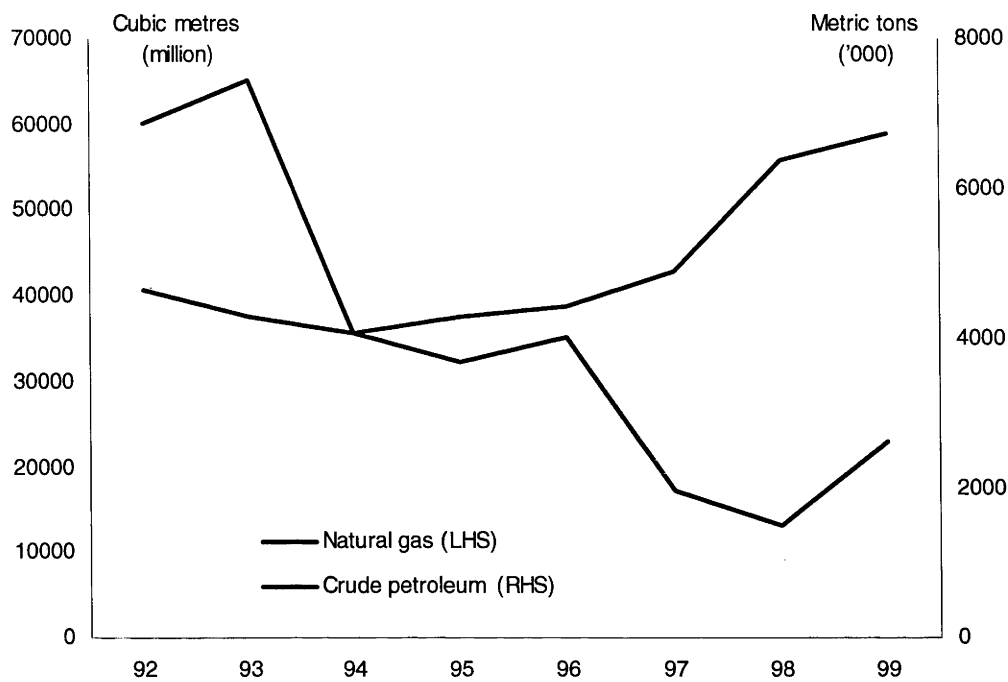
On the agricultural side, if we are to believe the production statistics, growth has been driven predominantly by increased wheat production, with cotton production fairly

Figure 6.8 Turkmenistan: exports, 1993–2002 (US\$ million)



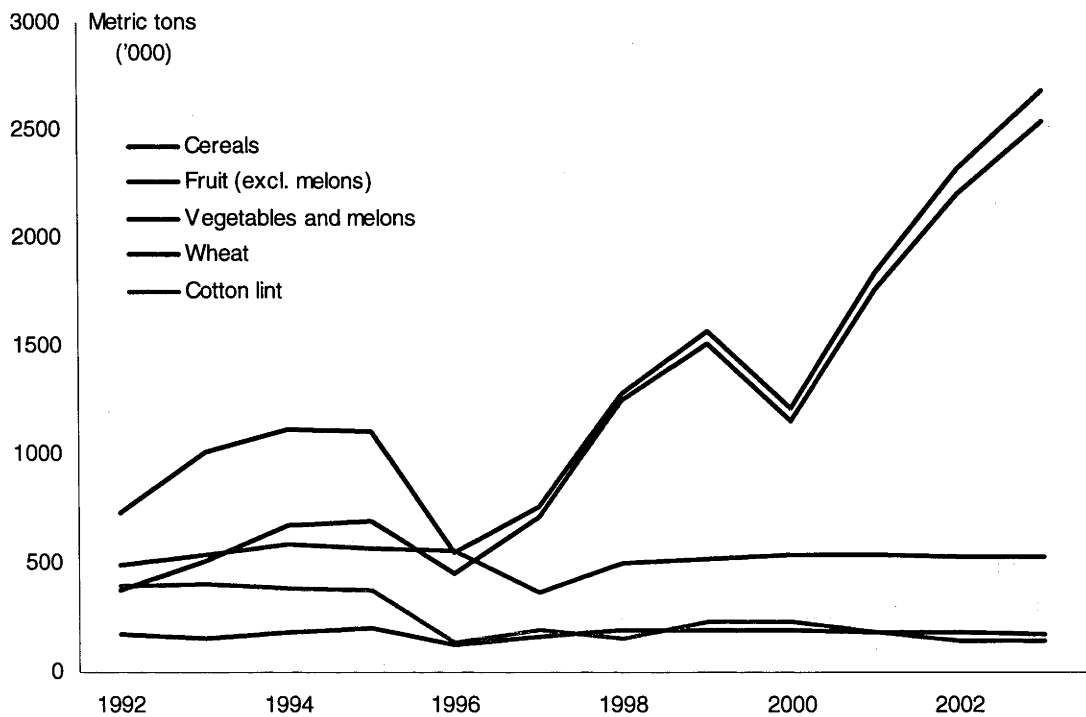
Source: Asian Development Bank, 2002. *Key Indicators 2003*, Asian Development Bank, Manila.

Figure 6.9 Turkmenistan: production of major industrial goods, 1992–99



Source: Asian Development Bank, 2002. *Key Indicators 2002*, Asian Development Bank, Manila.

Figure 6.10 Turkmenistan: production of major agricultural goods, 1992–2003



Source: FAOSTAT, 2004 data.

constant over time. The strange growth profile of cotton fibre, particularly the apparent collapse in production in 1996, is partly corroborated by IMF-collated statistics for Turkmenistan's exports. Cotton fibre exports were fairly steady around US\$330–430 million until 1996, plummeted to US\$86.6 million in 1997, but only partly recovered in 1998 to US\$135.4 million. In this light, these statistics should be interpreted with extreme caution, but the notion that cotton production has stagnated while wheat production has continuously increased is not unreasonable as such, though the scale of growth from 2000 onwards in wheat production looks suspicious.

Thus, Turkmenistan's initial opportunity, its economic endowment, has been countered by an externally-imposed constraint—the inability to export the republic's key product in return for hard currency, and sometimes to export at all. Recent years have seen moves to overcome this constraint through political and diplomatic efforts, but also through investment in alternative means of exporting natural gas (such as through Iran, and by developing new pipeline routes to Europe and South Asia). Crucially, economic reforms had very little to do with this. Put bluntly, Turkmenistan could have become the most liberal economy in the world and the Ukraine would still have been unable or unwilling to pay for its imports of Turkmen natural gas. It could be argued that more reform would have attracted more foreign investment, but history suggests that a well-functioning market economy with a sound institutional environment is not a critical issue in energy-sector investments (see section 1.8.3).

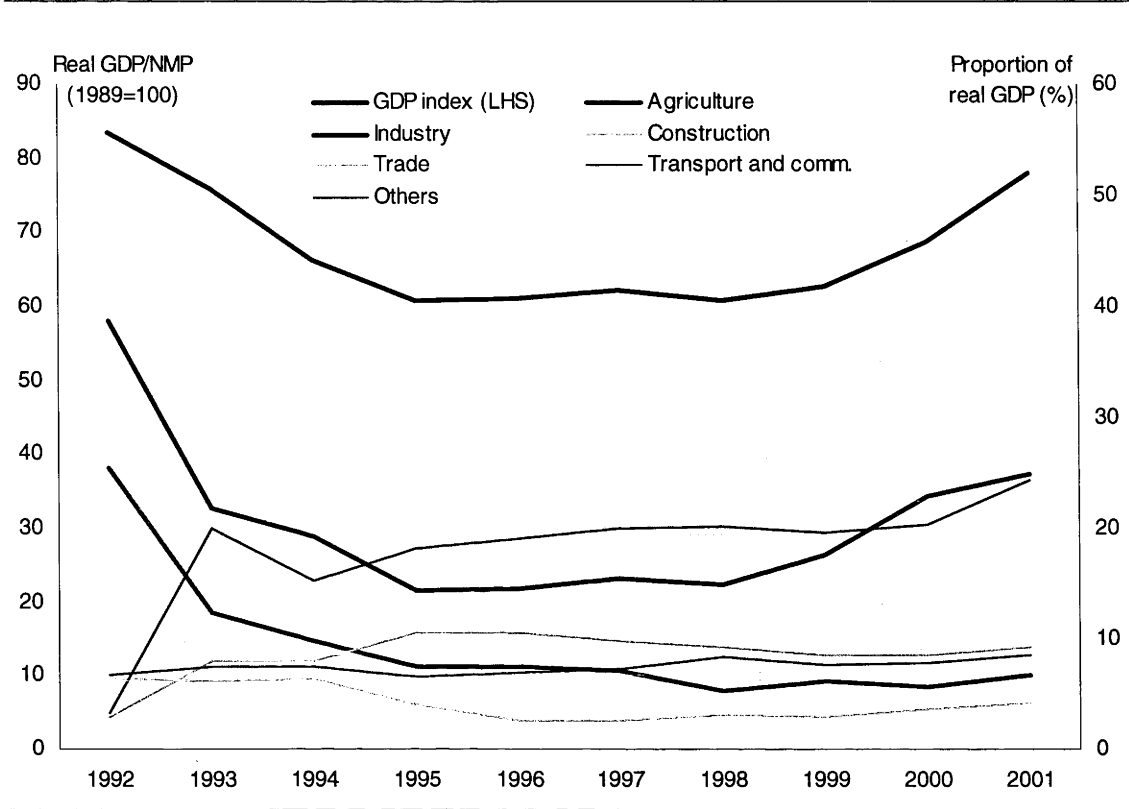
To summarise, Turkmenistan's performance has been driven not by reform speed or approach, but by structural and geographical factors—the dominance of natural gas exports and the economy's consequent sensitivity to transport interruptions. Turkmenistan has needed, and will continue to need, to develop more extensive transport networks to overcome the constraints imposed by its geography and neighbours.

6.1.4 Kazakstan: the problems of resource exploitation

Kazakstan's output profile is similar to those of Kyrgyzstan and Turkmenistan, but substantially worse than that of Uzbekistan (Figure 6.1). The sectoral dynamic, however, differs somewhat in that Kazakstan's GDP decline was spurred by the simultaneous collapse of both agriculture and manufacturing, but its recovery has been driven principally by recovery in the industrial sector (Figure 6.11). This generalisation, moreover, conceals considerable changes within the industrial structure.

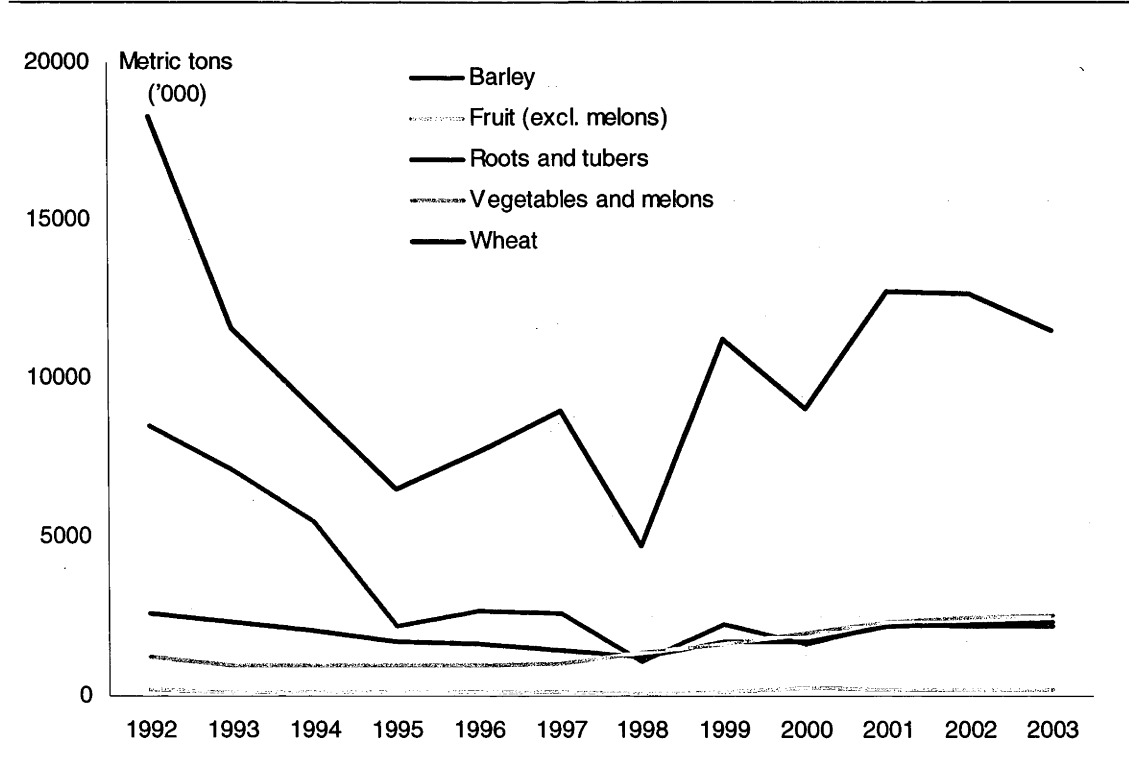
Starting with the agricultural sector, we can see that the decline was predominantly in grain production. Kazakstan is in fact the only Central Asian republic where grain production has shown almost unrelenting across-the-board decline. Production of both wheat and barley, Kazakstan's most important crops, declined precipitously in the early years of transition, and only wheat has recovered to any extent (Figure 6.12). Perhaps we should not be surprised at this given the over-extension of grain production in Kazakstan during the Soviet era (see Chapter 1), but similar reductions in meat production suggest that the changes are not being driven by a reversion to animal husbandry in the region—between 1991 and 2000, egg and meat production fell 60 per cent and milk production fell by over 30 per cent (Goskomstat Rossii 2000). This points to a more general stagnation of the agricultural sector.

Figure 6.11 Kazakhstan: sectoral influence on real GDP profile, 1992–2001



Sources: UN Economic Commission for Europe, 2003. 'Statistical Appendix', *Economic Survey of Europe*, 1:224. Asian Development Bank, 2002. *Key Indicators 2002*, Asian Development Bank, Manila.

Figure 6.12 Kazakhstan: principal agricultural products, 1992–2003

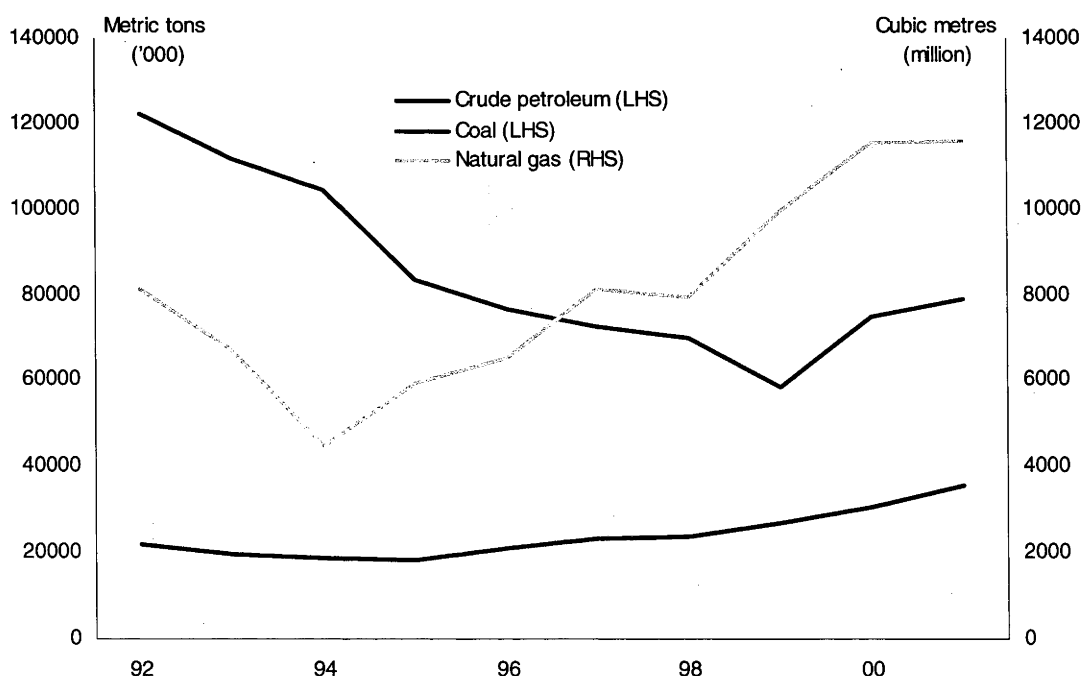


Source: FAOSTAT, 2004 data.

The Kazak industrial sector shows a similarly unusual pattern of decline and recovery. The decline was prompted by a collapse in manufacturing industry—the sector linked most closely with Soviet production processes—but the recovery does not seem to have occurred primarily in this sector. Instead, industrial production has revived through the long-term development of the industrial raw materials sectors such as mining, oil, and natural gas (see Figures 6.13–6.14). This basically accords with what we would expect to happen under theories of disorganisation and CIS trade collapse: those industries that were most closely integrated into Soviet production processes declined inexorably, whereas those industries that did not rely on Soviet supply and demand have thrived.⁷

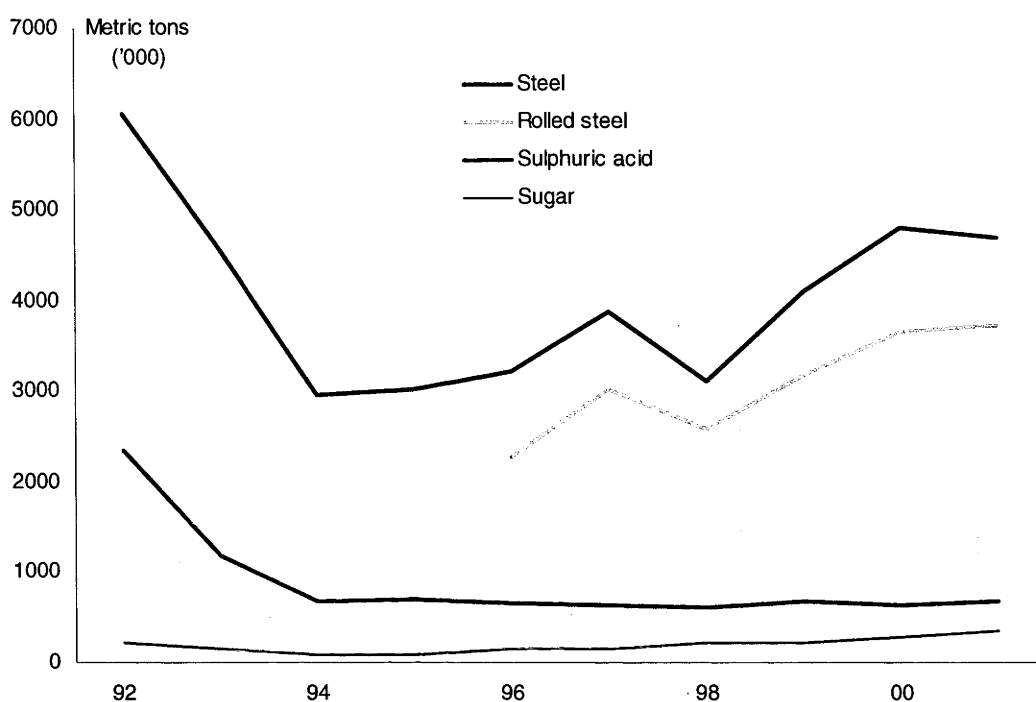
Two points: first, Kazakhstan's industrial production was much more integrated into, and reliant on, Soviet production processes than most of the other republics. When the Soviet Union collapsed, breaking up trade linkages and production networks, Kazakhstan's industry found itself without its traditional market. New markets for the old products were difficult to find. The result was industrial decline. Second, new forms of industrial production have emerged, concentrated in the oil and natural gas industries, but these have required extensive investment, and this has taken a long time to materialise. As Jones Luong (1999:37) has argued, moreover, the Kazak government's concentration on exploiting oil and gas has had profound negative consequences in terms of giving a false impression of oil as a 'panacea for all that ails', enabling excessive current borrowing to cover short-term exigencies, and diverting attention away from other sectors of the economy.

Figure 6.13 Kazakhstan: principal industrial products, 1992–2001



Source: Asian Development Bank, 2002. *Key Indicators 2002*, Asian Development Bank, Manila.

Figure 6.14 Kazakhstan: principal manufactures, 1992–2001



Source: Asian Development Bank, 2002. *Key Indicators 2002*, Asian Development Bank, Manila.

Often overlooked is that Kazakhstan has actually been as aggressive as Kyrgyzstan in its approach to economic reform (see Chapter 4). Together, they are the region's most advanced reformers. Unlike Kyrgyzstan, however, Kazakhstan is endowed with a range of resources that can potentially be exploited to sustain economic growth. Given this endowment of resources, why has Kazakhstan's GDP performance more closely resembled that of Kyrgyzstan than that of Uzbekistan? Again, the answer lies in country-specific constraints—transport and capacity-building.

While Kazakhstan has not really faced the same problems as Turkmenistan in exporting its natural resources, and has a more diverse resource base to draw on, it too is concerned by reliance on Soviet pipeline routes. The post-Soviet period, as a result, has seen strong efforts to develop alternate routes for Kazak oil and natural gas. The sector also suffers some legacies of the Soviet period. Kazakhstan's major oilfields are on the Caspian coast in the far West of the country, but its oil refineries were set up in the northeast during the Soviet period to process crude imported from Russia's West Siberian fields. At independence, Kazak oilfields were not connected by pipeline to its refineries. Thus, Kazak oil was exported to Russia rather than refined in Kazakhstan, and Siberian oil was imported into Kazakhstan to be refined. As a consequence, considerable investment has been needed in pipeline development, as well as in expanding extractive capacity.

Although foreign direct investment has poured into the country, the need for it has limited the speed with which production for exports can be boosted. It takes time for investors to assess opportunities, negotiate with governments, and develop industries. Thus, there has been a kind of interim, in which old sectors have collapsed but the new

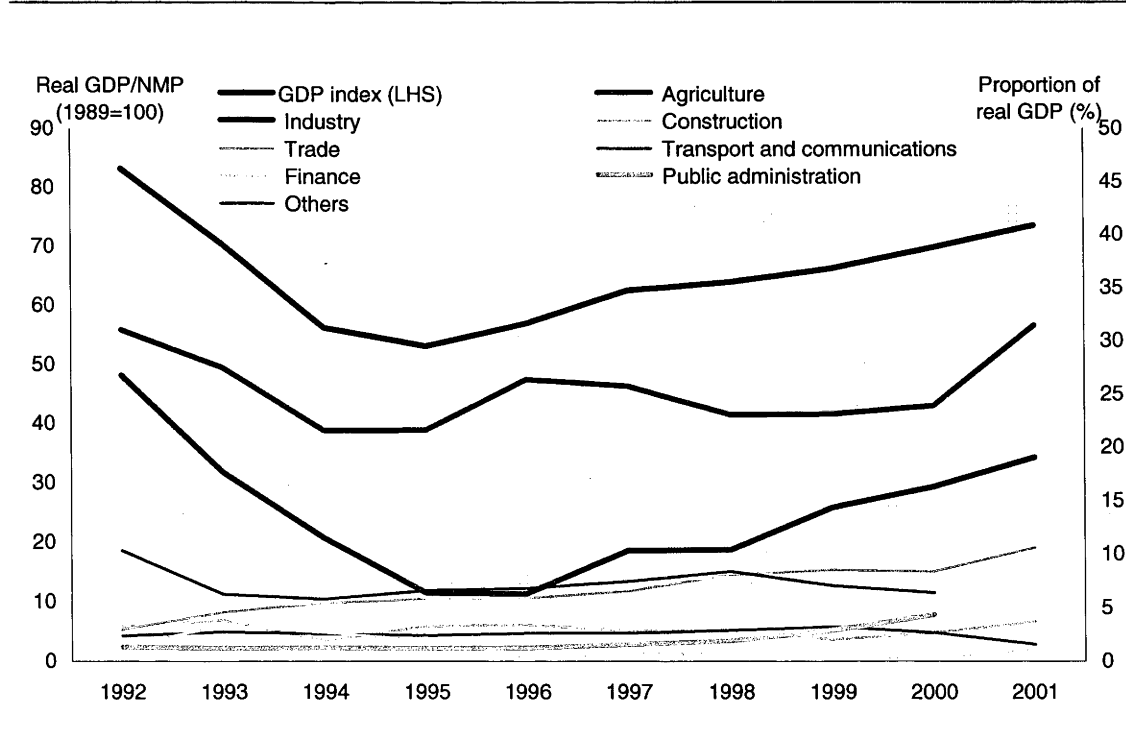
sectors have not begun developing.⁸ In this respect, Kazakstan’s initial endowment was not as opportune as Uzbekistan’s in that time and investment has been required for it to be realised, and a resource that can be exploited with little or no investment is qualitatively more attractive than one that cannot.

Kazakstan’s economic decline, therefore, was a product of its integration into, and reliance on Soviet production processes. Similarly, the agricultural decline in the post-Soviet period can be seen as an economically (and environmentally) sensible reaction to the excessive development of grain production in the Soviet period. Its recovery has been driven not by reform, as some economists would argue, but by the country’s good fortune in sitting on an unusually large supply of oil and natural gas. Developing these assets, however, has taken considerable time. Kazakstan will obviously continue to grow, its economy driven by exploiting its natural resource reserves, but its growth will be dependent foremost on the continued strength of oil and gas prices and the geopolitical constraints of transport. Reform, and even governance, will be incidental so long as corruption and government interference remain within a range tolerable to resource companies.

6.1.5 Kyrgyzstan: exploiting minimal opportunities

Kyrgyzstan’s GDP performance, like that of Kazakstan and Turkmenistan, has been unimpressive. GDP declined considerably, driven predominantly by the fall in industrial output, but also to a lesser extent by fluctuations in agricultural activity. Recovery has come through renewed growth of both the industrial and agricultural sectors (Figure 6.15).

Figure 6.15 Kyrgyzstan: sectoral influence on GDP performance, 1992–2001



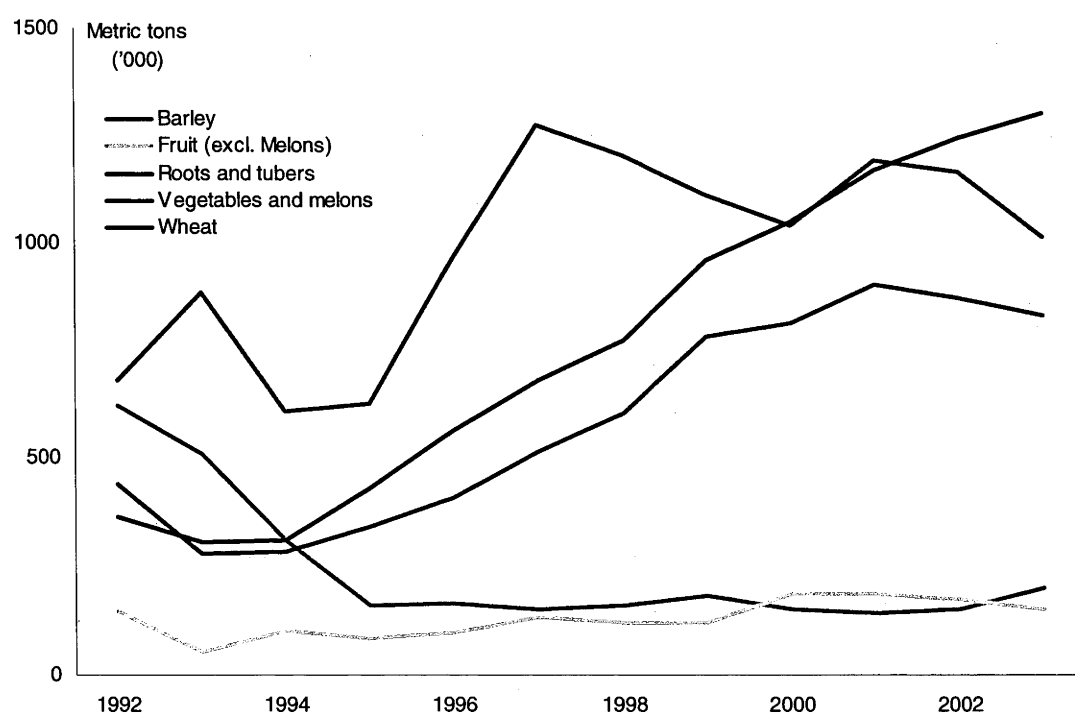
Sources: UN Economic Commission for Europe, 2003. ‘Statistical Appendix’, *Economic Survey of Europe*, 1:224. Asian Development Bank, 2002. *Key Indicators 2002*, Asian Development Bank, Manila.

As with Kazakhstan, however, this generalisation conceals some significant sub-sectoral shifts. In industry particularly, production has shifted from a diverse structure with some extractive industries and some manufacturing industry to a concentration almost completely on a single extractive industry—gold mining. The reasons for this can be found in the Soviet-era structure of the economy. Kyrgyzstan was more heavily industrialised than other Central Asian republics except Kazakhstan, with a few key manufacturing plants that were heavily bound to Soviet production processes. With the break-up of the Soviet Union, this manufacturing sector collapsed because of interruptions to trade and payments systems and a lack of ready markets for its products. In the second half of the 1990s, gold mining—a far simpler form of industrial production—came to replace the old industrial sector.⁹

Gold mining has driven the recovery. Kyrgyzstan's transition recession ended in 1997 when the Kumtor gold mine began production, and growth has remained intimately bound up with the fortunes of the mine since. In fact, the Kyrgyz economy is now so dependent on the gold mine that, when activity there was shut down in 2002 following a very serious accident, Kyrgyz GDP growth collapsed from 5.3 and 5.4 per cent in 2000 and 2001 respectively to 0.0 per cent in 2002. When the mine was reopened, GDP growth recovered to 5.2 per cent in 2003.

Agricultural production also suffered somewhat in the transition period but nowhere near as much as industry. Most major agricultural products either showed no decline, or have grown strongly since early in the transition (Figure 6.16). Barley is the exception, and this points to substitution away from barley production towards wheat, tubers and

Figure 6.16 Kyrgyzstan: production of principal agricultural goods, 1992–2003



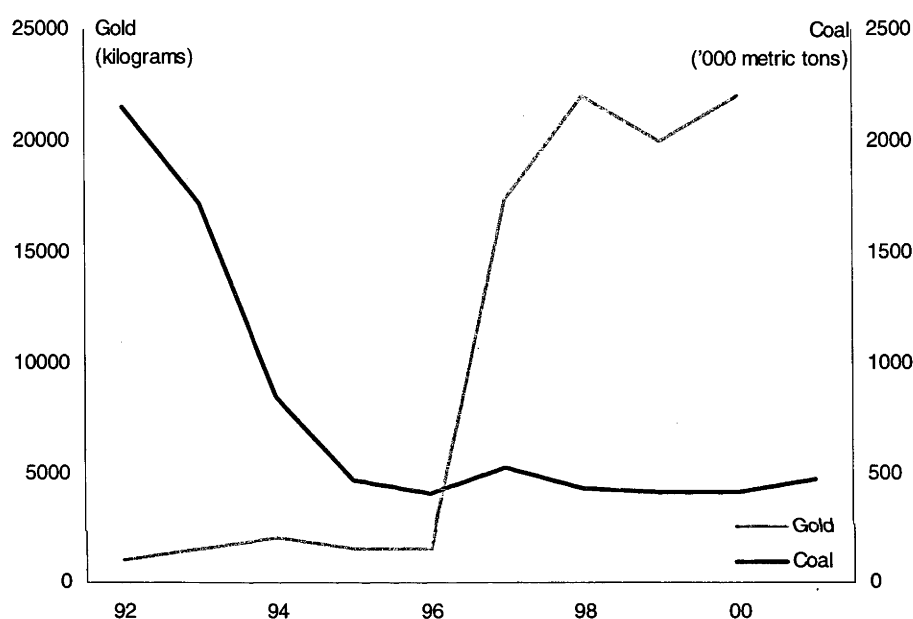
Source: FAOSTAT, 2004 data.

Table 6.3 Selected indicators of livestock production, Kyrgyzstan, 1992–2003
(metric tons '000)

	1992	1995	1998	2001	2003
Eggs	33.1	8.3	9.8	12.8	15.0
Meat	227.7	179.9	190.5	196.8	201.4
Milk	961.0	864.2	972.7	1142.1	1192.7

Source: FAOSTAT, 2004 data.

Figure 6.17 Kyrgyzstan: production of major industrial sector goods, 1992–2001



Source: US Geological Survey, 2000. *Minerals Yearbook 2000*, US Geological Survey, Reston, Virginia. Asian Development Bank, 2002. *Key Indicators 2002*, Asian Development Bank, Manila.

vegetables, most likely for subsistence consumption. Livestock production has been slightly different in that an initial decline was followed by recovery, but only milk production has risen above 1992 levels so far. Agriculture is the mainstay of the Kyrgyz economy, employing about half the population, but it has not been a critical contributor to economic growth.

Instead, as noted above, growth has been driven by the industrial sector. The economic decline was related to Kyrgyzstan's industrial integration into Soviet production processes, but, unlike Uzbekistan, it did not have goods that could immediately and readily be redirected to world markets. So, when Soviet trade and payment systems fell apart, and Soviet industrial demand collapsed, Kyrgyz industry was left with no market for its products. The post-Soviet period has seen efforts to develop alternatives, but substantial investment has been necessary to build anything approaching an effective export industry. In the Kyrgyz case, the majority of this has gone into development of gold production facilities—the Kumtor project. As with Kazakhstan, development of new Kyrgyz industry has taken time. The Kumtor gold mine first started producing marketable

gold in 1997, five years after the holding company Cameco took its initial stake in the mine site. There was a prolonged period, therefore, in which Kyrgyzstan's old Soviet industry collapsed, but new industry had yet to emerge. Kyrgyzstan's problem is hence the same as Kazakhstan's in terms of initial endowments.

Kyrgyzstan's decline therefore was driven by the kind of disorganisation and trade collapse described by Kornai (1994) and Blanchard and Kremer (1997). Its recovery has not been a product of reform but instead the belated opening of a simple extractive industry—gold mining—whose products can be sold readily on world markets. Arguably, reform may have played a role in this by making Kyrgyzstan a more attractive destination for investors, but this seems unlikely because natural resources investment seems to be driven more by extractive opportunities than the economic environment in the target country (see Chapter 1). Reform, as a consequence, cannot be seen to have played much of a role in Kyrgyzstan's transition GDP performance: the decline was initiated by exogenous factors, such as the trade and payments collapse coupled with Kyrgyzstan's reliance on Soviet markets; and the recovery has been driven primarily by a single gold mine. As with Kazakhstan, reform in Kyrgyzstan did not release resources from the old Soviet sectors to be taken up by newer, more efficient industries. Rather, labour has been released into underemployment in the agricultural sector, and the capital formerly supplied from the all-Union centre has vanished. The replacement has essentially been a single industry that uses limited domestic labour and is financed by capital imported from overseas, including the international financial institutions.

6.1.6 Output declines in transition

One of the important things to note in the decline in output during transition is the relative unimportance of transition strategy. As shown in Chapter 4, Kazakhstan and Kyrgyzstan were the region's advanced reformers, Tajikistan was a case of delayed reform, and Uzbekistan and Turkmenistan were slow reformers. Factors outside the policy making sphere have driven changes in output in both Uzbekistan and Tajikistan. Uzbekistan was fortunate to have an economic structure concentrated on products that could be readily directed to world markets, thus insulating it from the collapse of Soviet trade and payments systems, and the fall in Soviet industrial demand. Tajikistan, on the other hand, suffered a serious civil war that disrupted all kinds of economic activity, and an unpropitious mix of major products at independence. This situation was compounded by severe disruptions to transport networks, which prevented its major exports from being directed to world markets. Turkmenistan's economic difficulties were almost completely associated with transport difficulties imposed by CIS neighbours. Kazakhstan and Kyrgyzstan both experienced collapse in their old industrial sectors, and it has taken time for these countries to develop new industries viable in world markets, predominantly in natural resources extraction. Thus, GDP profiles in the Central Asian republics were determined by economic structure, transport constraints, and trade flexibility, not by reform approach

Economic structure. Of the countries surveyed here, Kyrgyzstan and particularly Kazakhstan were arguably most closely integrated into the Soviet economic space, occupying a more extensive role in supply chains, particularly in terms of intermediate

levels of production, of the Soviet era production processes. Following Blanchard and Kremer's (1997) theory, this means that they would be more exposed to disorganisation through disruptions in trading patterns and more exposed to the collapse in demand throughout the Soviet industrial sector. This represents an obvious constraint. It was difficult for these countries to arrest the output decline precipitated by the Soviet break-up by re-orienting trade to world markets, and they have seen their old industries collapse as a result. It has taken time, and considerable investment, for replacement industries to develop. In theory, Tajikistan, Uzbekistan and Turkmenistan all could have avoided collapse to some extent owing to their lighter dependence on Soviet production networks, but other factors have dragged down GDP performance in Turkmenistan and Tajikistan.

Trade flexibility. Given the propensity to disorganisation as the Soviet system fell apart, the importance of being able rapidly to redirect exports to world, rather than traditional, markets cannot be understated. The collapse of traditional trade patterns severely limited demand for traditional products within the Soviet Union. First, most products could be sourced more cheaply elsewhere. Second, the transition process was accompanied by the collapse (intentional or otherwise) of vast sections of the Soviet industrial sector. This, inevitably, would have a profound effect on demand for inputs—the bulk of Central Asian production in both the natural resources and manufacturing sectors. If a country's traditional exports could be rapidly redirected to, and be competitive on, world markets, there would be less of a disruption in demand. This is effectively what happened in Uzbekistan, which was able to redirect its cotton production toward world markets, then use the income derived from this production to assist other industries and maintain social expenditures, among other things. Table 6.3 provides evidence that Uzbekistan moved earlier and more aggressively than the other republics to redirect exports to non-CIS destinations. Kazakhstan and Kyrgyzstan were less able to achieve this owing to the nature of their product mix at independence.

Transport. Transport has been a critical determinant of performance, and both Tajikistan and Turkmenistan have suffered because of difficulties with transport. While the civil war was the primary cause of Tajikistan's economic crisis, its major industry, an aluminium smelter, was completely dependent on functioning transport linkages with the outside world, and its other major economic activities, such as cotton production, are also highly dependent on them delivering inputs and as a route for exports. Transport is particularly vulnerable in Tajikistan because the terrain prevents many routes being developed. It does not take much for all the economically viable routes out of Tajikistan to be cut; and when they have been, Tajikistan's economy has suffered. Turkmenistan represents a similar scenario. Its major product, natural gas, is readily marketable outside the CIS, but it has suffered problems because it is effectively constrained by existing transport networks to sell its gas to either Russia or Ukraine. Difficulties with transporting its gas through these nations, or extracting payment from them for gas sold, have led to severe interruptions in Turkmen gas exports and consequently to repeated crises in the Turkmen economy. Uzbekistan, on the other hand, has not suffered any of these problems. Its major exports—cotton and gold—are readily exportable to world markets both because there is demand for them there, and because it has faced few problems in physically delivering them to those markets.

Reform has had little influence on economic performance in Central Asia. Kazakhstan and Kyrgyzstan experienced economic decline because of their economic structures, which were highly integrated into, and reliant on, Soviet trade and production networks. Tajikistan's economic crisis was caused primarily by civil war and secondarily by interruptions to transport links with the rest of the world. Turkmenistan's problems were also created by transport and payments difficulties, which led to the collapse of its major export and the keystone of its economy—natural gas. Uzbekistan represents the opposite scenario: it has not experienced difficulties substituting world markets for Soviet, and it experienced few difficulties physically transporting its products to those markets. Thus, the Central Asian republics' GDP performance in the transition period has been determined by transport constraints, civil war in Tajikistan, and structural factors, particularly the flexibility of major exports, all of which lie beyond the influence of domestic economic reform.

6.1.7 A number of questions

The discussion above raises a number of questions for future research. First, is it possible that reform approach is not a relevant factor in output performance in the Central Asian context? The Central Asian economies are all, to some extent, reliant on natural resource extraction for the bulk of their output and, even more so, their trade. Commodities are notoriously vulnerable to external developments, and arguably unusually so in Central Asia.

Second, is there a critical mass to reform? While I have labelled Kazakhstan and Kyrgyzstan as aggressive reformers in regional terms, they are not considered so in the general transition context. It is possible that, while these countries have made much progress in reforms, they have not crossed some threshold level of economic reform or have not made progress in some critical aspect of reform, and consequently not reaped the rewards of reform.

Third, are there specifics of reform elsewhere that are not being applied in Central Asia? The current economic fashion for institutions and good governance may be one key avenue of further research; as Chapter 4 demonstrated, the Central Asian republics have not moved far in establishing a healthy institutional environment for a market economy.

6.2 INFLATION

6.2.1 Overview of Central Asian performance

All the Central Asian republics suffered at least some period of hyperinflation early in the transition period. What is striking, however, is how brief the inflation outbreaks actually were. All the republics except Turkmenistan had brought inflation rates down by 1996, and Turkmenistan seems to have brought it down by 1997.¹⁰ Kyrgyzstan was clearly the most successful at limiting the inflationary impetus, suffering brief and relatively moderate inflation in the period 1992–95. Turkmenistan had the worst inflationary episode, experiencing the highest and most prolonged bout of hyperinflation in the region. Hyperinflation there lasted from around 1992 until 1997, and probably later though the available statistics do not show it. Tajikistan and Uzbekistan experienced reasonably brief

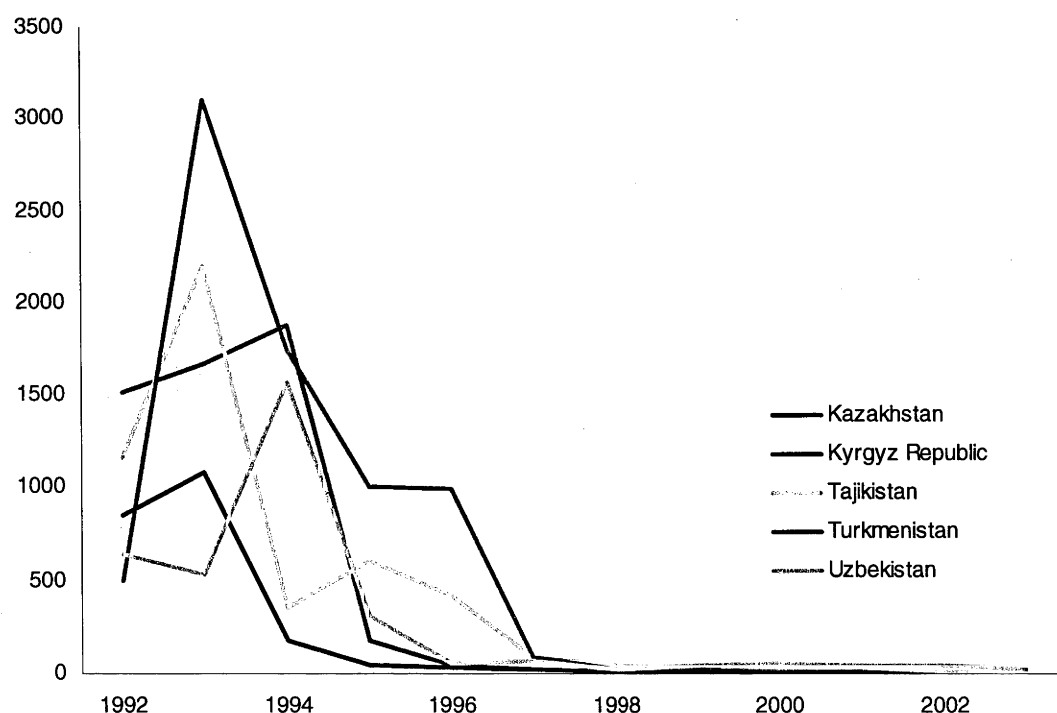
spikes of hyperinflation early in the transition process, followed by high to moderate levels of inflation throughout the decade, with Tajikistan performing more poorly than Uzbekistan. Kazakhstan managed to control inflation by 1995–96, reaching a level basically equivalent to that in Kyrgyzstan, after a bout of hyperinflation lasting at least three years (Figure 6.18).

6.2.2 Causes of inflation in Central Asia

Chapter 3 presented in detail a number of theories drawn from the general transition literature to explain inflation in the transition economies. These included monetary overhang, easy credit under the Rouble Zone conditions, and monetisation of fiscal and quasi-fiscal deficits.

It is critical at this point to recall that all the Central Asian republics were heavily subsidised by the Union centre (see Chapter 1) during the Soviet period. It difficult to establish clearly the level of this subsidy, but Orlowski (1995) has calculated levels in the order of 15–25 per cent of GDP just prior to independence. In the post-Soviet period, the republics have had to deal with removal of this budget support—basically an exogenous budget shock. The republics dealt with this external shock in different ways, but their essential aim was to ensure continuity of government spending after the loss of the subsidy. Some were more successful in this respect than others.

Figure 6.18 Inflation in Central Asia, 1992–2003 (per cent per annum)



Source: International Monetary Fund, 2003. *World Economic Outlook* Database, International Monetary Fund, Washington, DC, September.

Monetary overhang. The quantity of money in circulation in the Soviet Union is thought to have far exceeded the appropriate level given the quantity of goods available. In a market economy, as explained in Chapter 3, this would lead to a decrease in the value of money—that is, inflation—to bring the two disparate levels back into equilibrium. In the Soviet system, this was prevented by price controls, under which prices could not rise to the equilibrium—a monetary overhang. When prices were freed, however, inflation could realign the value of the currency to reflect the quantity of goods available. It is likely that this monetary overhang explains some of the initial burst of inflation in the transition economies, but the initial price rise should correct price disequilibrium developed under the monetary overhang. More prolonged inflation needs other explanations.

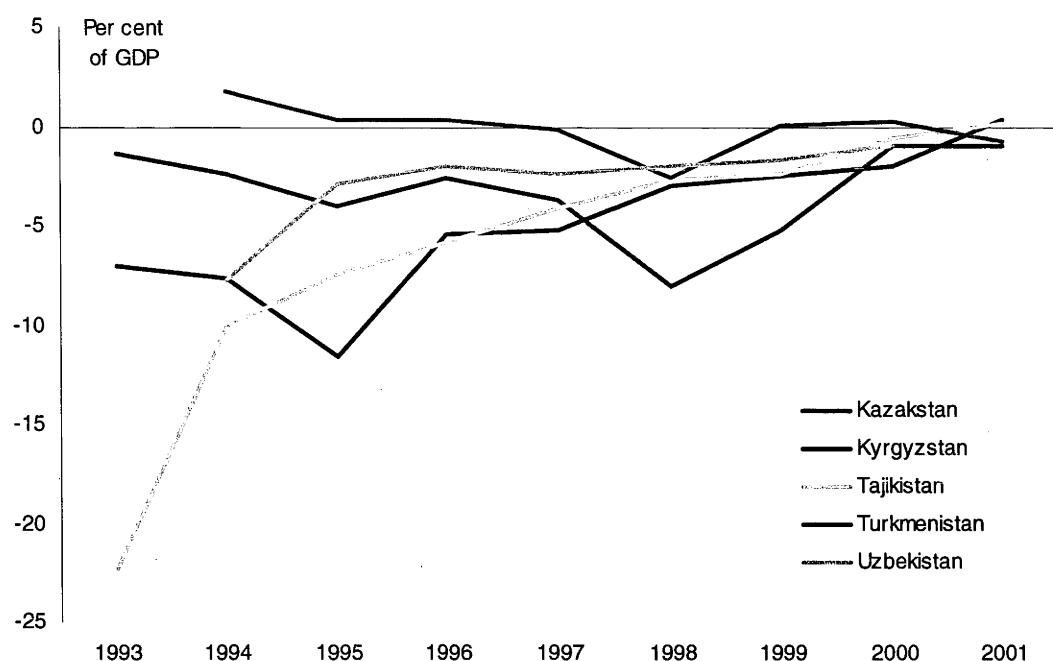
The Rouble Zone. The republics saw the Rouble Zone as a substitute for the explicit all-Union subsidies withdrawn following the Union's collapse, and used it to expand credit to domestic enterprises and services at the expense of the other Zone members. The profile of inflation in the Central Asian republics certainly suggests a role for difficulties with the Rouble Zone in causing price instability. As we saw in Chapter 4, all the republics except Tajikistan had introduced their own currencies and left the Rouble Zone by October 1994. By 1995, inflation in Kazakhstan, Kyrgyzstan and Uzbekistan was brought back to moderately high (rather than hyperinflationary) levels. The reduction of inflation in Kyrgyzstan after 1993 seems to coincide with the introduction of the national currency in the middle of that year. Similarly, control of inflation in Uzbekistan in 1995 seems ostensibly to be related to the introduction of its single national currency in mid 1994. The other republics' performance is not so easily related to the Rouble Zone. Moreover, some caution is required here in that it is very difficult to disentangle monetary expansion under the Rouble Zone from monetary expansion purely within the each independent republic.

Fiscal position. A major factor underlying inflation in the transition economies has been the monetisation of deficits and quasi-fiscal deficits. Thus, *a priori*, we would expect deficits in Central Asian republics to correspond closely to inflation outbreaks.

Figure 6.19 shows the overall budget position of the Central Asian republics. In terms of fiscal position, Turkmenistan appears to be the best performer overall. There are, however, a number of reasons to doubt this. First, even though these statistics are from the Asian Development Bank, that bank relies on the national authorities to provide the basic data, and it is wise to be very sceptical about claims made by the Turkmen government.¹¹ Second, a great deal of government activity in Turkmenistan is not included in the government budget. The Central Bank of Turkmenistan systematically lends at extremely concessional or zero interest rates to selected projects, so the government budget may not reflect actual levels of spending.¹² The growth of the money supply, discussed later, seems to indicate that this is the case.

The Uzbek performance does seem to fit nicely with changes in their inflation path in that a significant decline in the budget deficit appears to precede the major fall in inflation. Tajikistan's performance also fits reasonably well, with a decline in inflation following the major decrease in budget deficit. Kazakhstan's performance does not fit so closely, although it may be possible to associate the deterioration in budget deficit until 1995 with the prolonged high inflation seen there until that year.

Figure 6.19 Overall surplus/deficit of central government budget, 1993–2001
(per cent of GDP)



Sources: Asian Development Bank, 2003. *Key Indicators 2003: education for global participation*, Asian Development Bank, Manila. Available online at http://www.adb.org/Documents/Books/Key_Indicators/2003/default.asp [accessed 19 June 2004]. Gürgen, E. et al., 1999. *Economic Reforms in Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan*, IMF Occasional Paper 183, IMF, Washington, DC.

Perhaps surprisingly, Kyrgyzstan has not been especially good at restraining budget deficits. The Kyrgyz government has struggled to limit the fiscal imbalance, only really bringing it under control by the turn of the century. Its fiscal performance has certainly not been spectacular compared to that of other Central Asian republics. During the extreme inflationary period of the early 1990s, Kyrgyzstan's fiscal deficit was of the same magnitude as seen in the other Central Asian republics (Figure 6.19).

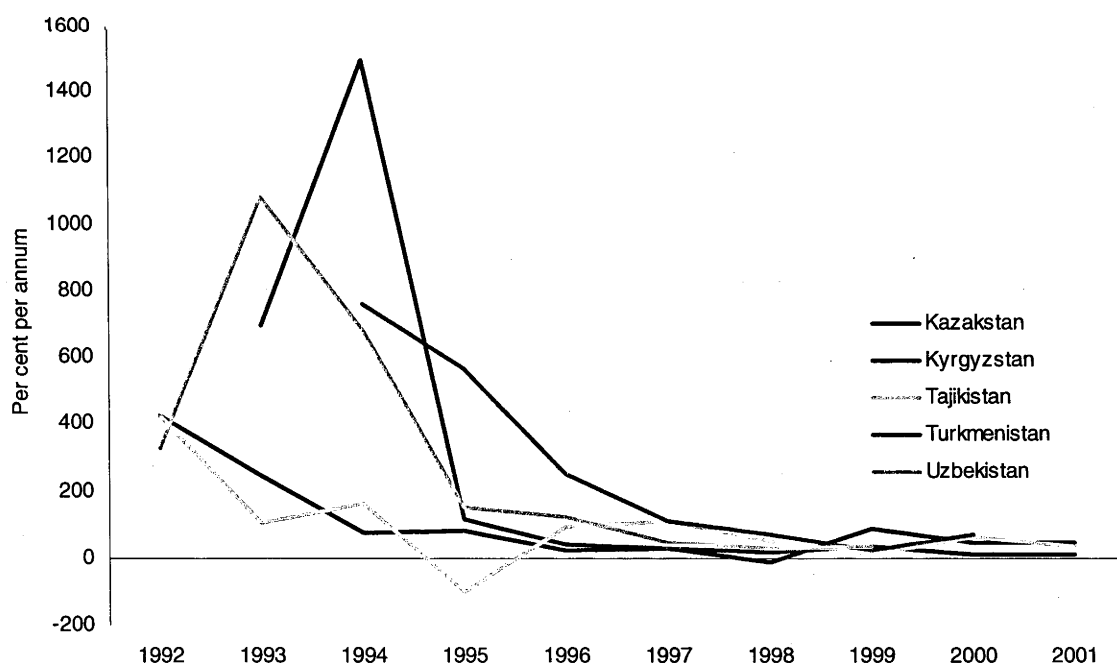
Extrapolating from this general overview, we would expect (if we disregard our scepticism) to find that Turkmenistan experienced minimal inflation; Kazakhstan and Uzbekistan experienced short bursts of hyperinflation in the early years of transition followed by a slow decline in Uzbekistan, and a renewed burst of inflation in Kazakhstan in 1998–99 associated with a deterioration in the government's fiscal position in 1998. We would also expect Kyrgyzstan to have experienced protracted inflation at higher levels than seen in Uzbekistan and Kazakhstan given its inability to restrain large budget deficits. And Tajikistan would have had very prolonged high inflation.

This has not happened. So, we must ask: why have deficits not always translated into inflation? The answer is that not all ways of financing deficits have the same impact; the critical factor is whether deficits change the money supply. Thus, where governments have been able to avoid monetising deficits, inflation has usually been controlled.

Growth of the money supply. Money supply dynamics bear this out to some extent. Kyrgyzstan was able to curtail rapidly the expansion of its money supply, substantially reducing emissions by 1994, and further in 1996. Kazakhstan and Uzbekistan experienced massive expansions in the money supply in the early years of the transition period but brought these under some control in 1995—the same year that inflation was initially reduced in these republics, giving credence to the theory that monetised deficits were responsible for the brunt of inflation (Figure 6.20).

Turkmenistan, as we would expect, maintained a far looser monetary policy, apparently bringing monetary emissions under control only in 1997–99. There is little doubt that the prolonged hyperinflation in Turkmenistan was due to poor monetary policy. The money supply grew by over 500 per cent in 1995 and was still growing at over 200 per cent per annum in 1996. As mentioned before, this is despite the ostensibly healthy budget performance. Two factors are key here. First, off-budget operations, particularly Central Bank credit, dominate most of the country's major economic sectors, directly contributing to money supply growth (IMF 1999b). Second, the statistics are probably false. It is difficult to know how far to credit the Turkmen statistics, but I am inclined to believe that quasi-fiscal deficits, growth of the money supply and inflationary pressure remain prevalent in Turkmenistan. The evidence for making this judgment is mixed. Natural gas exports have revived since 1997, providing a source of revenue to the

Figure 6.20 Central Asia: changes in money supply, 1992–2001 (per cent per annum)



Sources: Asian Development Bank, 2003. . *Key Indicators 2003: education for global participation*, Asian Development Bank, Manila. Available online at http://www.adb.org/Documents/Books/Key_Indicators/2003/default.asp [accessed 19 June 2004]. Asian Development Bank, 1997. *Asian Development Outlook, 1997 and 1998*, Asian Development Bank, Manila.

government and its agencies. On the other hand, until 2001 the black market value of the manat persistently declined against the US dollar, reflecting either decreased value or decreased confidence in the currency, which implies the currency was losing value through inflation.¹³ Furthermore, measures of inflation in Turkmenistan are distorted by the repression of this inflation through continuing price controls on key goods.

Tajikistan represents a puzzle in that it appears to have controlled the money supply even in the early years of transition. A number of explanations for the inflation there may tentatively be advanced: (1) the statistics are wrong, (2) disruptions caused by the civil war may have caused non-monetary price rises, and (3) Tajikistan's continued use of the Russian Rouble may have had effects not accounted for under the money supply measure used here.

How is it that Kyrgyzstan was able to control the money supply, despite persistent budget deficits, when other Central Asian republics could not? The answer lies in the forms of deficit finance discussed in section 3.3—internal finance could be obtained through domestic borrowing and monetisation; external finance through external borrowing, including foreign aid. The choice of finance for budget deficits was an integral determinant of inflation performance. Governments that could borrow money controlled inflation; governments that had to rely on printing money to finance deficits did not. So, controlling inflation did not just come down to controlling deficits (although that is the simplest way), the speed with which governments could adopt less inflationary forms of deficit finance was critical. In Central Asia, this typically meant foreign loans and/or bond issues.

6.2.3 The special role of foreign loans

Kyrgyzstan has been the region's stand-out performer in accessing foreign loans to finance budget deficits, usually on concessional terms (Table 6.4).¹⁴ Kyrgyzstan, and later Tajikistan, have replaced Soviet-era subsidies from the Union centre with borrowing (on concessional terms) from foreign sources. As Askar Akaev, President of the Kyrgyz

Table 6.4 Central Asian republics: foreign financing of budget deficits, 1993–2001 (per cent of all finance)

	1993	1994	1995	1996	1997	1998	1999	2000	2001
Kazakstan	n.a	n.a	n.a	n.a	75.3	37.2	47.0	125.7	35.1
Kyrgyzstan	21.2	55.9	45.6	52.4	82.1	93.4	127.1	24.9	-65.1
Tajikistan ^a	0.0	0.0	0.0	57.3	32.9	62.0	103.1	507.0	539.7
Turkmenistan	n.a	5.0	-3.0	-115.2	-1627.8	-2.8	n.a	n.a	n.a
Uzbekistan	-10.0	0.0	40.0	0.0	0.0	27.9	n.a	n.a	n.a

Note: ^a Tajikistan has large net negative levels of domestic finance in 2000–2001, which suggests that the government was borrowing from external sources to repay domestic sources in these years.

Sources: Asian Development Bank, 2003. *Key Indicators 2003: education for global participation*, Asian Development Bank, Manila. Available online at http://www.adb.org/Documents/Books/Key_Indicators/2003/default.asp [accessed 19 June 2004]; International Monetary Fund, 1999. Turkmenistan: recent economic developments, IMF Staff Country Report 99/140, International Monetary Fund, Washington, DC; International Monetary Fund, 2000. *Republic of Uzbekistan: recent economic developments*, International Monetary Fund, Washington, DC.

Republic, has written, '[c]learly international assistance to Kyrgyzstan has compensated for the loss of the annual subsidies provided by Moscow in the Soviet era' (Akaev 2001:84). This has allowed it to avoid monetising its persistent deficits, and consequently allowed it restrain inflation.

In this regard, Kyrgyzstan was able to limit the large external shock imposed by the withdrawal of subsidies from the Union centre. None of the other republics have been able to access foreign lending so extensively and on such favourable terms as has Kyrgyzstan. This is a clear pay-off from the reform approach, and more recently a pay-off from the judicious sale to the United States and Russia of the right to establish military bases in the country. Unfortunately, the pay-off has resulted from the appearance of progress given by the aggressive reform program, assiduously marketed to international lenders, rather than by actual structural change.

6.2.4 Inflation and reform in Central Asia

Proponents of big-bang reform have argued that rapid reforms, particularly privatisation, are instrumental in reducing budget deficits and consequently inflation (see Chapters 2 and 3). At first sight, the Central Asian experience would seem to support this: Kyrgyzstan, one of the region's most advanced reformers, managed to control inflation rapidly and early. And one of the region's tardiest reformers, Turkmenistan, has been the slowest to control inflation (see Chapter 4).

Far from supporting this, however, the Kyrgyz case contradicts it. Inflation there was controlled before the extensive reforms really began, and reforms there were singularly unsuccessful in influencing budget deficits (see Timirbaev 2004). What the reforms did do, however, was induce a willingness amongst international organisations and donor agencies, and some foreign governments, to finance an unsustainable deficit. It is this finance, quite extraordinary in the region, that has effected the seemingly spectacular inflationary performance. As a simple mental exercise, one could ask what would have happened if Kyrgyzstan had, like the other Central Asian republics, been unable to access external, concessional, finance. Quite simply, expenditures would necessarily have been sharply reduced, exacerbating the already disastrous levels of poverty, or the government would have been compelled to borrow money from the central bank, just as the other Central Asian governments were forced to do. This, obviously, would have led to a serious outbreak of inflation.

Two points need to be made here. Kyrgyzstan's unusually good inflation performance is as much due to external factors—in this case, the willingness of external creditors and donors to finance Kyrgyz government budget operations, but not those of other Central Asian governments—as was Uzbekistan's ability to limit the output decline. If this were a case of pure foreign aid, Tajikistan surely would have received more aid and lending given the scale of its economic collapse and the humanitarian catastrophe caused by the civil war. This did not happen, and Kyrgyzstan received, per capita, 2.5 times the amount of foreign grants and concessional loans that Tajikistan received during the 1990s (see section 6.3.8).

Kyrgyzstan was able to overcome the disruption created by the withdrawal of Soviet subsidies, not by actual structural change (in terms of the budget deficit, this has not really happened yet), but by appealing to international institutions' ideologically-determined

willingness to lend. There is no doubt that, had these institutions chosen to assist Uzbekistan and not Kyrgyzstan, we would now be marvelling at Uzbekistan's excellent inflation performance and maligning Kyrgyzstan's execrable performance. Thus, Kyrgyzstan's ability to take up externally-provided opportunities was a deciding factor in its impressive inflation performance.

Second, while foreign lending has allowed Kyrgyzstan and Tajikistan to control or avoid inflation in the short term, in the longer term it presents another, possibly worse, problem—foreign debt. Both countries are heavily in debt, with accumulated debt exceeding gross national income (see section 6.3.8). Foreign debt peaked in 1999 at more than 140 per cent of gross national income in Kyrgyzstan, and more than 120 per cent in Tajikistan. The level has dropped in recent years, reflecting improved national income figures, but debt and debt repayments will still present a problem for policymakers in the future.

6.2.5 Conclusion

Inflation in the Central Asian republics, as in most economies, is closely related to growth in the money supply. Transition theory suggests that growth in the money supply in transition economies is associated with fiscal and quasi-fiscal deficits, and that the speed and extent of reform were critical factors in reducing the levels of these deficits. The Central Asian experience generally supports the idea that fiscal and quasi-fiscal deficits are important determinants of inflation performance, but provides some key exceptions. Some republics were able to continue running deficits but avoid monetising by accessing foreign loans. Kyrgyzstan and later Tajikistan were the prime examples of this strategy; they were able to take advantage of exogenous opportunities presented by external bodies to postpone the shock occasioned by disruption of Soviet subsidies.

6.3 TRADE AND EXTERNAL BALANCE

6.3.1 Central Asian merchandise trade

The disruption of trade relations is widely regarded as one of the most important contributing factors to the decline seen throughout the FSU.¹⁵ The Central Asian Republics have, generally, been able to redirect trade to new partners over the course of the 1990s. Merchandise trade volumes have increased in all the Central Asian republics, but most spectacularly in Kazakhstan.

Goods trade has followed different paths in the various Central Asian republics. Merchandise trade values—for both exports and imports—have generally increased in all of the republics since the transition period began. The one exception to this general trend is Uzbekistan, where both imports and exports increased in value during the late 1990s but subsequently fell back to around their initial levels (Table 6.5). The most striking trade growth has taken place in Kazakhstan, where both imports and exports have grown considerably. The value of Kazakhstan's imports has doubled, and the value of its exports tripled, over the period 1994–2002. Kyrgyzstan has increased both imports and exports at about the same rate, occasionally suffering trade deficits. Tajikistan shows a similar pattern. There, imports increased from US\$0.25 billion in 1992 to US\$0.72 billion in 2002, close to 300 per cent growth; but exports have grown even more strongly from

Table 6.5 Central Asian republics: merchandise exports and imports, 1992–2002 (US\$bn)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Merchandise imports											
Kazakstan			3.56	3.81	4.24	4.30	4.24	3.68	5.05	6.36	6.49
Kyrgyzstan	0.42	0.45	0.32	0.52	0.84	0.71	0.84	0.60	0.55	0.47	0.59
Tajikistan	0.25	0.63	0.55	0.81	0.67	0.75	0.71	0.64	0.68	0.69	0.72
Turkmenistan			1.47	1.36	1.01	1.18	1.01	1.19	1.78	2.25	2.12
Uzbekistan			2.60	2.75	4.71	4.19	3.13	3.01	2.85	3.02	2.45
Merchandise exports											
Kazakstan			3.23	5.25	5.91	6.50	5.34	5.59	9.13	8.65	9.71
Kyrgyzstan	0.32	0.40	0.34	0.41	0.51	0.60	0.51	0.45	0.51	0.48	0.49
Tajikistan	0.19	0.35	0.49	0.75	0.77	0.75	0.60	0.67	0.78	0.65	0.74
Turkmenistan			2.15	1.88	1.68	0.75	0.59	1.16	2.50	2.70	2.85
Uzbekistan			2.55	2.82	4.21	4.03	3.22	3.03	3.23	3.11	2.65

Source: UNECE, 2004. *Economic Survey of Europe*, UNECE, Geneva.

US\$0.19 billion to US\$0.74 billion (389 per cent growth) over the same period.

Tajikistan achieved trade surpluses, albeit slight, more frequently than did Kyrgyzstan. As usual, the Turkmen data should be treated with suspicion, but the figures are not entirely implausible: export values fell considerably and more rapidly than import values in the blockade years of the late 1990s but both recovered through 1999–2002. Uzbekistan shows the opposite path, with both exports and imports increasing through the mid 1990s and falling subsequently. Uzbekistan has shifted to running trade surpluses fairly consistently since 1998, which may be a product of President Karimov's drive for self-sufficiency but could equally indicate an improvement in Uzbekistan's terms of trade.

All the republics have diversified export destinations away from CIS partners towards the rest of the world, but the extent and speed with which this has occurred has differed considerably. Similarly, all the republics except Tajikistan have diversified their import sources away from the CIS (Table 6.6–6.7). In the transition period, the ability rapidly to diversify exports away from CIS destinations often determined whether these countries received hard currency for their exports or even got paid at all for their products (see section 6.1).

Kazakstan, Kyrgyzstan and Uzbekistan have all diversified export markets, but Uzbekistan pursued this far more rapidly than either Kazakstan or Kyrgyzstan. We might also tentatively note that Turkmenistan's data are not inherently implausible—they suggest that Turkmenistan continues to direct a far higher proportion of its exports to CIS partners than its Central Asian neighbours, which is quite likely to be true given that Turkmenistan's major export is natural gas, which is sold predominantly to Russia, the Ukraine and other CIS members. Tajikistan, according to the data, has decreased the share of its exports to CIS countries from approximately 43 per cent to 25 per cent. It is likely that this was a consequence of the war, which interrupted all production processes but was concentrated in the cotton-growing areas. This left aluminium as the primary export, and this was sold to Western countries.

This pattern of diversification of exports reflects the fact that many of the region's major products—gold, natural gas, oil and also aluminium—are also produced in the Russian Federation, the dominant economy in the region. The Russian Federation was the world's sixth largest gold producer in 1999, its largest natural gas producer, its third largest producer of crude oil, and its second largest aluminium producer (Levine and Wallace 2000). There are, as a consequence, few trade complementarities between Central Asia and Russia—Central Asian production tends to form an adjunct to lower-cost domestic supply sources in the Russian Federation. The exception to this is of course raw cotton, of which the Russian Federation is the world's eighth largest importer (*Australian Cottongrower* 2000). On the other hand, given that total exports are increasing, the decreasing CIS share in exports reflects the success of the region's economies in diversifying export destinations and finding new markets for their major products.

The CIS share in imports to the Central Asian republics has declined less rapidly (Table 6.7). Turkmenistan and Uzbekistan have moved furthest in this respect. The data suggest that the CIS share of imports reached approximately 35 per cent of all imports to Turkmenistan and 37 per cent to Uzbekistan in 2002. The pattern differed slightly between these countries. The CIS share of Uzbek imports followed a U-shape profile, falling away rapidly in the mid 1990s and recovering slightly at the turn of the century, whereas the profile of CIS share in Turkmen imports shows a more jerky profile: serious declines in 1995 and 1998 were followed by partial recoveries, a pattern which would seem to be associated with Turkmenistan's difficulties exporting natural gas. Tajikistan, on

Table 6.6 Central Asian republics: merchandise exports to CIS countries as proportion of total republican exports, 1992–2002 (per cent)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Kazakstan			58.0	54.9	53.8	45.9	39.3	26.1	26.0	30.4	22.9
Kyrgyzstan	75.7	71.7	65.6	65.8	77.8	52.8	44.9	40.3	41.2	35.3	34.6
Tajikistan	43.5	35.1	18.9	33.6	43.0	36.6	34.0	46.9	47.6	32.5	25.4
Turkmenistan			77.0	49.4	63.7	60.1	25.6	50.3	52.0	51.9	51.9
Uzbekistan			62.1	39.3	21.1	33.2	24.6	26.8	35.3	34.1	26.4

Source: UNECE, 2004. *Economic Survey of Europe*, UNECE, Geneva.

Table 6.7 Central Asian republics: merchandise imports from CIS countries as proportion of total republican imports, 1992–2002 (per cent)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Kazakstan			61.1	69.7	69.5	54.2	47.2	43.3	54.6	52.0	46.7
Kyrgyzstan	83.1	75.0	66.2	67.8	58.1	61.5	52.4	43.3	53.8	55.0	55.0
Tajikistan	48.0	40.6	42.6	59.0	57.3	64.3	62.7	73.1	83.0	78.2	75.9
Turkmenistan			46.7	54.6	55.5	55.1	47.4	34.1	38.2	37.8	34.9
Uzbekistan			53.8	40.7	32.2	27.2	27.8	29.0	36.8	36.4	36.7

Source: UNECE, 2004. *Economic Survey of Europe*, UNECE, Geneva.

the other hand, has actually increased the share of its imports sourced from CIS economies. The explanation for this can be found in the composition of Tajik imports, which are dominated by fuels and chemical products, most of which continue to be sourced from neighbours. This, however, does not explain why the CIS share would have been so low in the early years of the transition. The slower decline in imports sourced from the CIS in the Central Asian republics probably reflects exchange rate variations—imports of CIS products are inevitably far cheaper than the equivalent sourced outside the CIS.¹⁶

6.3.2 Kazakhstan

Kazakhstan's merchandise trade has been dominated by rapid growth in exports, particularly the increased share of oil and gas in the value of exports. In this regard, mineral product export values have risen from US\$1533 million in 1995 to US\$5951 million in 2002—over two times larger than the next most important Kazak export (base metals), and over ten times larger than the third (chemical products). The share of manufactured goods in Kazak exports has fallen considerably, driven by a fall in the proportion of chemicals and other manufactured goods', reflecting the overall hollowing out of the manufacturing sector in Kazakhstan (Asian Development Bank 2003).

Kazakhstan's import structure has shown staggering change. Approximately 75 per cent of all Kazak imports are now manufactured goods, up from 58.3 in 1995 (UNCTAD n.d.). The bulk of this increase has occurred in imports of machinery and transport equipment. Animals and animal product imports have increased strongly, as have those of vegetable imports—by 240 per cent in the case of animal products—which corresponds with the fall in domestic meat production noted in section 6.1.4. This has been offset by decreased imports of mineral products and especially fuels—fuel imports fell from 25.1 per cent of all imports in 1995 to 12.7 per cent in 2001—reflecting the development of Kazakhstan's oil and gas sector, production of which grew 72 and 95 per cent respectively over 1995–2000 (CIS Statistics Committee 2001; UNCTAD n.d.). What seems to be happening in Kazakhstan is a shift towards the production and export of raw materials, particularly oil and natural gas, and the extensive development of this sector has required imports of large volumes of industrial equipment, that is, manufactured goods, which are increasingly sourced outside the CIS.

6.3.3 Kyrgyzstan

Kyrgyzstan has diversified its export markets, but has done so more slowly than either Kazakhstan or Uzbekistan. Its import sources have shifted more slowly still. Imports have grown at around the same speed as exports, leaving the trade balance basically unchanged. On the export side, a number of different trends can be discerned. First and most important is the boom in exports of precious stones and metals starting from 1997, which is almost exclusively due to production of gold at the Kumtor mine. This has been offset to some extent, however, by a severe reduction in the value of manufactured goods exports, the share of which in total exports fell from 41.1 per cent to 21.7 per cent between 1995 and 2002. 'Machinery, mechanical appliances and electrical equipment' have been the lead industry in the decline of this sector; their export value fell by half between 1993 and 2002.

Kyrgyzstan's imports are now dominated by manufactured goods, and to a lesser extent fuels (UNCTAD n.d.; CIS Statistics Committee 2001). The primary growth categories have been machinery, mechanical appliances and electrical equipment; chemical products; and plastics and rubber. Imports of machinery, appliances and equipment peaked in 1996 and have since tapered off considerably, so it is likely that they were associated with the development of the Kumtor gold mine. Chemical products and plastics and rubber imports have grown more steadily but similarly show peaks in 1997–98 and also 2002. This has been offset to some extent by a decrease in the value of vegetable product imports from US\$65 million in 1993 to US\$21.7 million in 2002 (Asian Development Bank 2003).

6.3.4 Tajikistan

Tajikistan's total goods trade has increased markedly in the period 1993–2002. The value of imports climbed from US\$0.25 billion to US\$0.72 billion and the value of exports increased from US\$0.19 billion to US\$0.74 billion over this period. As noted above, the pattern of export and import destinations has been somewhat strange. In terms of exports, aluminium remains the single largest export commodity, accounting for over half of Tajikistan's exports in 2001. Export values of Tajik aluminium increased through the 1990s, and their destinations moved predominantly to non-CIS countries. Almost half (48.7 per cent) of Tajikistan's aluminium exports in early 2003 were to Turkey and 37 per cent to the Netherlands.¹⁷ Exports of Tajikistan's other major export, cotton fibre, initially increased but entered a serious decline after 1997.

Given the available data, it is difficult to move beyond the broad picture in terms of Tajikistan's major imports. Alumina remains the single most important import, increasing in volume and value through the decade.¹⁸ Combined, fuels—oil and natural gas—represent a very large proportion of Tajikistan's import demand, but imports of these products have remained fairly steady.

Electricity trade has exhibited an unusual pattern in that electricity is one of Tajikistan's major exports, and also one of its major imports, reflecting the peculiarities of the Central Asian electricity grid, which was designed in Soviet times with little regard for republican boundaries. Tajikistan's major electricity plants are located in the south and mainly export electricity to neighbouring regions in Uzbekistan, but these plants are not connected with the north of the country, which is compelled to import electricity from Uzbekistan (Petrov 2003). In the early years of the transition period, Tajikistan was an occasional net electricity exporter, but this has since changed and it has become a fairly consistent net importer, in spite of its extensive hydro-electric resources.

This pattern of exports and imports may explain some of the curious developments in export/import relationships since 1992. While Tajikistan's major exports—aluminium and cotton fibre—can be, and have been, directed to world markets, its CIS neighbours are sole or cheapest sources for its major imports, such as natural gas, oil, electricity, grain and flour. A considerable proportion of Tajikistan's alumina imports are supplied by the Ukraine,¹⁹ gas and oil by other Central Asian republics, and most of its grain imports by Kazakhstan and Russia.²⁰

6.3.5 Turkmenistan

As noted above, Turkmenistan's merchandise imports and exports do not seem to have grown particularly rapidly in the transition period. If we are to take the data at face value, the value of imports basically followed a U-shape profile, dropping through 1996–98 and recovering strongly in 2000–2002. The source of imports has apparently diversified somewhat during this time. The value of exports followed a similar U-shape pattern. This is likely to be a reasonably close to the truth, reflecting Turkmenistan's difficulties in exporting natural gas through the mid to late 1990s and the subsequent successes in negotiating deals with both Iran and with Russia's Gazprom,²¹ although we may doubt the scale of the recovery.

Exports are dominated, as one would expect, by changes in natural gas exports. These fell from US\$1860 million in 1993 and US\$1021 million in 1996 to US\$273.7 million, \$69.5 million and \$388.²² million in the years 1997–99. This was because Turkmenistan was unwilling to sell gas at the prices then offered by Russia and Ukraine and also to continue exporting to Ukraine when that country had been unable to repay the hundreds of millions of dollars of debt accumulated on previous natural gas imports (Lubin 1999). Natural gas revenues have since apparently recovered to US\$1642.7 million in 2002 (Asian Development Bank 2003). There is little reason to doubt the scale of the contraction indicated by these statistics. Some healthy scepticism should be applied to the recovery implied by the statistics for 2000–2002, but the notion of a recovery in Turkmen natural gas exports during this period is not as such inherently ludicrous, though we may doubt its scale. The available statistics suggest that, in this time, exports of petrochemicals and crude oil have also grown, from US\$221 million in 1995 to US\$746 million in 2002 (Asian Development Bank 2003). This growth, however, has been offset by a rapid decline in the value of cotton fibre exports, from US\$428 million in 1993 to US\$48 million in 2002. Again there is little reason to doubt these statistics—the Turkmen authorities have no reason to exaggerate the fall in one of their prime industries. Curiously, the value of manufactures exports—basic manufactures and machines and transport equipment—seems to have grown strongly, rising from US\$63.5 to US\$167.7 between 1997 and 2002, but available statistics do not extend back beyond 1997 and should be interpreted with caution anyway (Asian Development Bank 2003).

On the import side, imports of foodstuffs have fallen considerably, probably reflecting the Turkmen authorities' drive towards self-sufficiency. Interestingly, foodstuffs imports collapsed in 1998, the year after the natural gas export problems intensified. On the other hand, the value of manufactured imports has grown across-the-board, with the major growth coming in imports of machines and transport equipment, which increased from US\$428 million to US\$857.6 million between 1996 and 2002, peaking at US\$1204.7 in 2001. Unlike foodstuffs and fats and oils, imports of manufactured goods were relatively unaffected by the events of 1997.

6.3.6 Uzbekistan

Judging by the statistics presented in Table 6.5, the value of Uzbekistan's imports and exports followed an n-shape profile, rising in the mid-1990s, but falling again in 2000–2002. During this time, Uzbekistan has diversified its export destinations and import

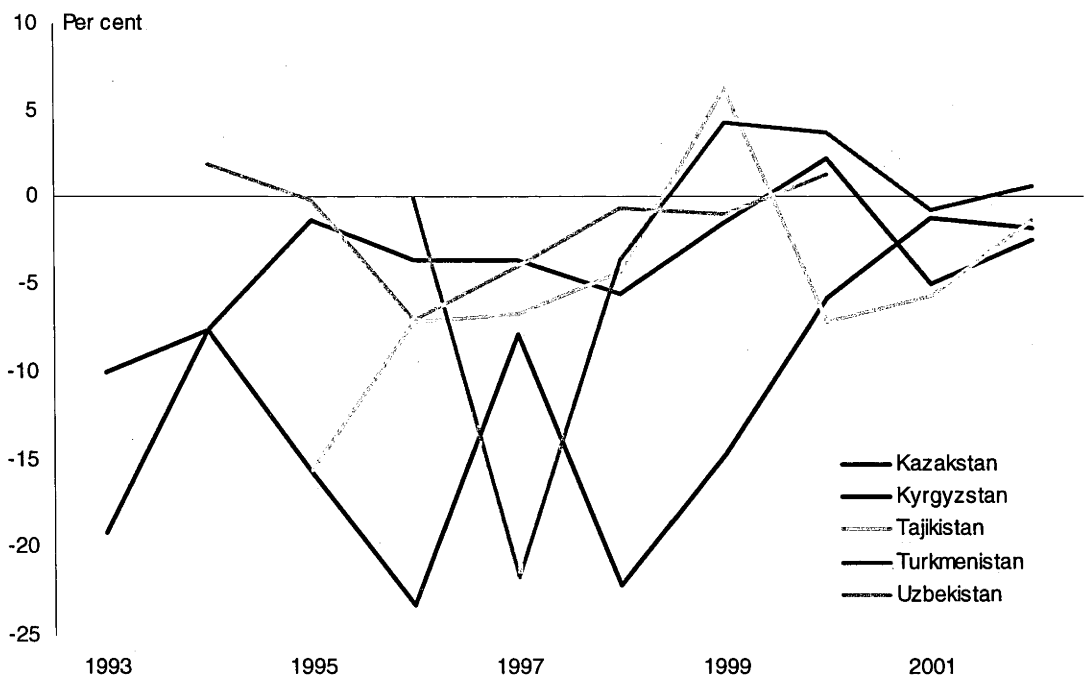
sources away from traditional CIS partners. This is hardly surprising given the ease with which Uzbekistan’s principal exports could be redirected to raise hard currency on international markets.²²

Little useful trade data is available, but what is available implies a steady fall in the value of Uzbek cotton fibre exports throughout the period, from US\$1172 million in 1993 and US\$1508 million in 1994 to around US\$669 in 2002, offset by a rise in the value of gold exports in 1995–97 (Asian Development Bank 2003; World Bank 2003c). Because of the highly aggregated nature of the rest of the data, however, it is quite difficult to make any concrete judgments. It seems likely that the mainstays of Uzbek exports remain cotton, gold and to a lesser extent fuels, but this is little more than a guess made with the benefit of additional World Bank (2003c) statistics. On the import side, the major product category seems to be machinery, which accounted for 46 per cent of all imports in 2002. Again, however, at this level of aggregation, it is difficult to make a thorough assessment.

6.3.7 Current account

The current account performance of most Central Asian republics has not been particularly good. Most suffered alarming current account deficits in the early years of transition from the trade dislocation and terms-of-trade shock induced by the Soviet Union’s dissolution, but all were able to reduce the current account deficit to within five per cent of GDP by 2001 (Figure 6.21).

Figure 6.21 Central Asian republics: current account balance, 1993–2002 (per cent of GDP)



Source: Asian Development Bank, 2003. *Key Indicators 2003: education for global participation*, Asian Development Bank, Manila.

In most cases, however, the poor current account performance has not reflected problems with negative net exports (see Table 6.5). Instead, it has reflected difficulties with net interest payments and service flows—all of the Central Asian republics appear to be net service importers, and most have had net negative income flows.²³

Kyrgyzstan is a regional exception in that it frequently suffers a negative trade balance in addition to the services trade income flow deficits. Of the non-goods components of the current account, the services deficit is high but seems to have declined in recent years. The net income component, on the other hand, is negative and growing, up from US\$35.4 million in 1995 to \$89.4 million in 2000 and \$64.6 in 2001 (IMF 2003b). Net transfers are positive, totalling US\$76 million in 2000 and \$19.1 million in 2001.

Turkmenistan's catastrophic current account deficit in 1997–98 was clearly related to its export problems (see above), and the current account's apparent subsequent recovery to generally positive levels is not entirely implausible, given revival of Turkmen exports. Turkmenistan does not yet appear have a serious problem with interest payments, unlike most of the other Central Asian economies. Rather, the negative influence on the current account deficit appears to be driven by expenditure on construction services, which reportedly accounted for 39 and 58 per cent of net services imports in 1996 and 1997 respectively, with transport another major contributor to service imports (IMF 1999b).

Kazakstan, despite its very strong net export performance, continues to experience occasional current account deficit problems, related to its net negative trade in services and interest income flows to foreign investors in Kazakstan. Net services imports in 2001 (US\$1518 million) completely wiped out the goods trade surplus (US\$1516 million), and net income payments (US\$1110 million), mostly to direct investors, contributed most of the rest of the current account deficit in that year (IMF 2003c).

The current account position in Tajikistan has moderated somewhat, reflecting some improvements in export performance. Tajikistan has also experienced a number of years of services trade surplus, but net income is negative and equivalent to a fairly high proportion of the overall current account deficit in most years, ranging from a low of 39 per cent in 2001 to a high of 153 per cent in 1999 (IMF 2003d). It is thought, however, that remittances from Tajik labourers, predominantly working in Russia, represent a huge proportion of both GDP and income flows. For example, Tajikistan's Minister for Labour and Social Security, Mamadsho Ilolov, claimed in April 2004 that the country received the equivalent of 20 per cent of its annual GDP as remittances from Tajik emigrant labourers (*ITAR-TASS*, 29 April 2004).

Uzbekistan's current account has generally been negative, but at relatively moderate levels. Since 1998, it has run a surplus on merchandise trade but has been a net importer of services, particularly transport services. In recent years, interest payments have become a major contributor to the negative side of the Uzbek current account balance (IMF 2000c).

Does reform approach have any role in this? The short answer would have to be no. Of the region's faster reformers, Kazakstan was able to bring its current account deficit under some kind of control before 2001, Kyrgyzstan was not and had the worst current account problems of all the republics. There are two obvious reasons for this: it had a

poor export base and it quickly ran up comparatively huge levels of foreign debt and thus incurred interest repayments throughout the decade. Kazakhstan, on the other hand, has a strong trade surplus and managed to limit the growth of its external debt before 1998.

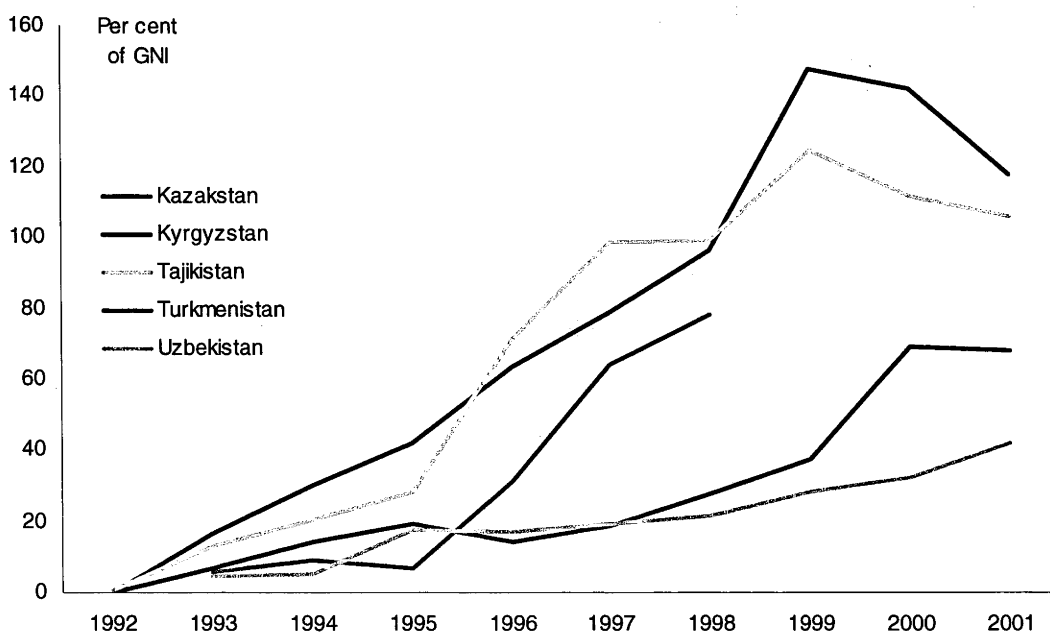
Uzbekistan, a slower reformer, has experienced basically the same pattern as Kazakhstan, albeit at less severe levels and for different reasons. Turkmenistan, as we noted before, experienced two years of stunningly bad current account deficit, but has (probably) since recovered, running occasional current account surpluses. Again, however, Turkmenistan's problems were not created by the lack of reform, but by external constraints that imposed an exogenous shock to its export base. Tajikistan, a delayed reformer, performed poorly but marginally better than its rapid-reforming neighbour Kyrgyzstan, despite half a decade of civil war and repeated interruptions to its export routes.

6.3.8 Foreign debt and foreign aid assistance

The pattern of foreign debt accumulation in the Central Asian republics has also differed considerably but, given that all the republics entered the transition period with no foreign debt at all, none can claim particularly impressive performance. As of 2001, external debt ranged between a low of about 40 per cent of gross national income in Uzbekistan and a high of 120 per cent in Kyrgyzstan (Figure 6.22).

Not surprisingly, the smaller, less well-endowed nations, Kyrgyzstan and Tajikistan, have incurred the largest amounts of foreign debt. This concurs with Helbling et al. (2004), who found that those countries that have suffered the largest and most prolonged

Figure 6.22 Central Asian republics: foreign debt as a proportion of gross national income, 1992–2001 (per cent)



Source: Asian Development Bank, 2003. *Key Indicators 2003: education for global participation*, Asian Development Bank, Manila.

current account deficits have also generated the highest levels of external debt. Turkmenistan was able initially to restrain its foreign debt levels, but seems to have lost control around 1996–97. This was likely exacerbated by the politically-motivated urge to maintain an extensive network of subsidies even when the main way of financing these subsidies—revenues from natural gas exports—was lost. That few external data are available for Turkmenistan, and none after 1998, suggests that the situation has not improved greatly since then, but this is purely speculation. Kazakhstan and Uzbekistan have had the best performances in the region, but Uzbekistan, according to this data, performed better from 1999 onwards. Kazakhstan issued a new round of government bonds in late 1999 (maturing in October 2004), which explains the apparent increase in Kazakhstan's debt in later years.²⁴

The nature of this debt differs considerably between the republics. Kyrgyzstan and Tajikistan in particular have been able to access foreign loans on extremely 'loose' terms, under which the interest rates charged are lower than market rates and/or the repayment term longer, deferring repayment further into the future. Table 6.8 shows ADB statistics for the grant element of foreign debt,²⁵ and indicates that far higher proportions of Kyrgyz and Tajik debt than that of the other republics are on concessional terms.

Kyrgyzstan has been the outstanding recipient of concessional financial flows even at absolute levels, receiving a total of US\$1992 million over the period 1992–2001. Kazakhstan, Uzbekistan and Tajikistan have also received considerable amounts of such aid since 1992, receiving between US\$940 million and \$1 150 million each over the course of the decade. These figures, however, conceal the true extent of the subvention this represents in the individual republics. Over 1992–2001, Kyrgyzstan received on average US\$199.2 million per year. This translates to US\$40 per capita per annum, or 13 per cent of Kyrgyzstan's 2001 GDP. Tajikistan came second, receiving on average US\$15.4 per capita per annum, or 8.9 per cent of its 2001 GDP. The equivalent figures for Kazakhstan were US\$7.4 per capita, or 0.5 per cent of 2001 GDP; for Turkmenistan, US\$6.0 and 0.5 per cent; and, for Uzbekistan, US\$4.4 per capita and 1.0 per cent of its 2001 GDP (UNCTAD n.d.).

We can only speculate on why exactly international lenders have been so overwhelmingly interested in supporting Kyrgyzstan so much more than its neighbours, including poverty and war-stricken Tajikistan, but ideology probably plays a role. And we can only imagine what the macroeconomic effects would have been had this aid not been

Table 6.8 Central Asian republics: grant element in foreign debt, 1992–2001 (per cent)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Kazakhstan	7.3	14.1	22.6	22.3	15.1	21.2	34.3	7.8	13.7	35.6
Kyrgyzstan	19.7	38.6	66.5	50.4	61.4	45.7	65.9	58.8	76.4	69.1
Tajikistan	26.4	34.4	9.6	0.0	80.7	81.5	78.4	75.2	78.7	71.0
Turkmenistan	...	24.3	14.7	11.9	16.7	13.8	9.7	...	...	...
Uzbekistan	11.2	23.4	10.5	23.6	29.7	16.6	22.3	25.0	19.2	24.4

Source: Asian Development Bank, 2003. *Key Indicators 2003: education for global participation*, Asian Development Bank, Manila.

Table 6.9 Central Asian republics: official financial flows, 1992–2001

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Total
Concessional finance (Official Development Assistance)											
Kazakstan	12	18	53	66	125	140	223	175	189	148	1149
Kyrgyzstan	24	112	174	285	231	240	240	283	215	188	1992
Tajikistan	12	26	67	65	103	86	161	123	142	159	944
Turkmenistan	9	31	26	28	24	12	24	24	32	72	282
Uzbekistan	62	63	28	84	88	140	158	155	186	153	1117
Non-concessional finance (Other Official Flows)											
Kazakstan	26	42	353	371	367	265	654	213	89	124	2504
Kyrgyzstan	2	35	18	54	73	15	-2	4	-3	-27	169
Tajikistan	9	56	16	4	0	8	3	4	1	-1	100
Turkmenistan	13	108	17	5	30	37	52	161	162	58	643
Uzbekistan	3	127	-18	203	71	38	109	198	138	223	1092

Notes: Official Development Assistance from bilateral and multilateral sources consists of loans with a grant element of 25 per cent or more. Other Official Flows are loans targeted towards economic development or welfare improvement in the recipient country that have a grant element of less than 25 per cent. It includes loans from both bilateral and multilateral sources.

Source: UNCTAD, n.d. Handbook of Statistics, United Nations Conference on Trade and Development, Geneva. Available online at <http://www.unctad.org/> [accessed 19 June 2004].

available. Given that Tajikistan received most of its aid from 1996 onwards, however, we can have some idea—GDP would have collapsed further than it did, and inflation would probably have reached the levels seen in neighbouring countries. Thus, the foreign finance allowed the Kyrgyz government to avoid the upheavals generated when subsidies from the Soviet centre were withdrawn (Osmonaliev and Koichumanov 2004). This does seem to be a pay-off to the reform approach: Turkmenistan and Uzbekistan have not had good relations with the multilateral institutions, resisting the constraints these institutions would impose as a condition of lending. Kyrgyzstan took the opposite approach, assiduously assuring multilateral institutions of its willingness to implement such conditions, and hence got the bulk of the aid flows to the region.

In 2002, facing impending debt crisis, Kyrgyzstan convinced Paris Club creditors to reschedule US\$99 million of debt due for repayment in 2001–04. The agreement means that this amount, comprising both concessional and commercial debt, will be repaid over 20 years (Paris Club 2002). This does not solve the problems, but postpones the crisis.

6.3.9 Foreign direct investment

Foreign direct investment (FDI) seems to be attracted in the first order to profit opportunities; the economic regime in place would seem to be a second-order priority in the region (Campos and Kinoshita 2003; Shiells 2003).²⁶ Kazakstan has attracted close to all of the FDI into Central Asia since the transition began, to levels in the order of 10 times the rest of the region combined. The first reason is obvious: Kazakstan has considerable resources, but development is needed before they can be exploited. The second reason is probably—and this is considerably more speculative—a government that is relatively open and eager to deal with foreign investors. Compare this with the Turkmen

Table 6.10 Central Asian republics: net foreign direct investment, 1992–2002
(US\$ million)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Kazakhstan	100	1271	660	964	1137	1320	1143	1584	1278	2796	2138
Kyrgyz Republic	0.0	10	38	96	47	83	87	38	–7	–1	16
Tajikistan	9	9	12	10	18	18	25	21	24	9	36
Turkmenistan	n.a	79	103	233	108	108	62	125	126	170	100
Uzbekistan	9	48	73	–24	90	167	140	121	75	83	65

Source: Asian Development Bank, 2003. *Key Indicators 2003: education for global participation*, Asian Development Bank, Manila. European Bank for Reconstruction and Development, 2003. *EBRD Transition Report 2003*, European Bank for Reconstruction and Development, London.

situation, where there are obviously considerable opportunities for resource exploitation, but foreign investors are yet to take them up. The opaque nature of the Turkmen government, the perceptions of corruption, and so forth may be acting to dissuade potential investors (Lubin 1999). Nevertheless, FDI seems to have increased in recent years, making Turkmenistan the second largest investment destination in the region. Kyrgyzstan and Tajikistan face different circumstances, conditions for profitable investment are quite poor given these countries' limited resources and other risk factors.

6.4 CONCLUSION

6.4.1 Output contraction and reform

All the economies of Eastern Europe and the former Soviet Union experienced severe contractions in GDP during the transition period, but the depth and extent of the contraction varied from country to country. Among the Central Asian republics, the severity and extent depended on each republic's economic structure at independence, its ability to redirect production towards world markets and minimise the dislocation of the Soviet collapse, and its ability to recoup payments for exports, particularly in hard currency. Republics that could redirect their production to world markets and derive hard currency from its sale were able to minimise the post-Soviet dislocation. In Tajikistan, of course, civil war was the major factor.

In this respect, Uzbekistan was most successful, exporting cotton and gold to world markets, at highly favourable prices, in return for hard currency. Turkmenistan, on the other hand, had a highly marketable product but suffered transport and payment difficulties, which prompted economic crisis in the latter half of the 1990s. Tajikistan experienced the dislocations of a civil war, a less opportune product mix, and transport difficulties, and consequently suffered one of the worst economic declines of transition economy. Kazakhstan and Kyrgyzstan were the republics most integrated into Soviet production processes. As a consequence, when the Soviet system collapsed, the manufacturing sectors of these economies fell apart as their links with, and subsidies from, the Soviet centre disappeared. It has taken time and considerable investment for alternative industries to develop—gold mining in Kyrgyzstan and hydrocarbons in Kazakhstan—which has been the prime influence on their economic performance in the post-Soviet period.

In all cases, however, the scale of the collapse and the pace of the recovery have not depended on reform speed or approach. Instead, as noted above, they have depended on factors beyond the policy sphere—initial economic structure, world markets and prices, and transport constraints. The problem here is that reform could play little role in influencing transition performance—it could not, for example, rapidly create markets for Kazak and Kyrgyz industrial output to replace those lost with the collapse of the Soviet Union. It could not, moreover, have helped Turkmenistan and Tajikistan maintain effective transport links with the wider world, and could not have forced buyers of Turkmen natural gas to pay reasonable prices, or to pay at all, for that gas.

6.4.2 Inflation and economic reform

Very high levels of inflation characterised the early transition period in Central Asia, as it did throughout Eastern Europe and the former Soviet Union. This inflation was a function of growth in the money supply, and in most cases this was determined by fiscal deficits. There were exceptions, however, in that Kyrgyzstan ran very large budget deficits throughout the transition period, but had the best inflation performance. This is important because Kyrgyzstan's good inflation performance has been erroneously attributed to its reform approach, where in reality it is explained by Kyrgyzstan's ability to finance deficits with foreign aid and grants on extremely concessional terms. Thus, what determined inflation in the region was not strictly fiscal deficits, but monetisation of fiscal deficits: those countries that could avoid monetising deficits were able to minimise inflation (for example, Kyrgyzstan through foreign aid and Kazakhstan through bond issues).

6.4.3 External developments and reform

External developments—in terms of foreign trade and its diversification, current account deficits; and foreign debt, aid and investment—have clearly been integral to the Central Asian republics' transition performance. Foreign trade developments and current account performance were not obviously related to reform speed or approach, hence reform was not related to external stability more broadly. In terms of foreign aid, Kyrgyzstan was by far the biggest recipient in the region, followed by Tajikistan; the other republics have not been anywhere near as successful in attracting foreign aid, which raises questions about what criteria such aid is given on. In this case, reform approach seems to have determined the outcome: Kyrgyzstan was able to access large quantities of foreign aid, which allowed it to avoid restructuring and to run fiscal deficits for far longer without inflationary consequences. But this has merely postponed Kyrgyzstan's adjustment—Kyrgyzstan has already run into difficulties repaying its debt, and the problem is not going away. Kazakhstan was the largest recipient of foreign investment in Central Asia, followed by Turkmenistan, but this seems to be associated more with the opportunities there than reform speed or approach.

We must conclude, then, that domestic and external factors beyond the policy realm determined macroeconomic outcomes in the Central Asian republics. Reform, while extremely important, has had little influence on economic outcomes in the region so far.

6.4.4 The impact of economics on economic and political reform

While the focus here has been on the impact of reforms on economic growth, it is important to consider the reverse—the impact of economic change and growth on reform. In terms of economic reform, renewed economic growth in all the republics basically obviates the need for further reform in the short-term.²⁷ The absence of economic crisis—renewed revenue flows and consequent capacity to fund infrastructure and social services—decreases the urgency for economic reform. This explains, to an extent the patterns of reform seen in Central Asia. In principle, there was no urgency for economic reform at independence in Uzbekistan or Turkmenistan, a fact that these republics' leaders knew and exploited. Economic crisis in Kazakhstan and Kyrgyzstan, however, seems to have impelled reforms there—governments sense the need to do, or be seen to be doing, something to resolve the crisis. In Kyrgyzstan, this was especially important, as we have seen, because its economic strategy relied on infusions of funds from international donors, and these donors have a strong preference for liberal economies and a preference, albeit weaker, for democratic polities. As growth has revived in these countries, the urgency for reform has vanished. Renewed growth, therefore, has played a role in dampening the impetus for institutional, economic and political reform. Put another way: why reduce one's power (say, through political reform), and potentially upset powerful interests, when there is nothing requiring such actions? This can go some way to explaining the political and institutional deterioration in both Kyrgyzstan and Kazakhstan in the second half of the 1990s.

Second, the sources of economic growth may be influencing political and economic reforms. As was shown in Chapter 1 and also above, the Central Asian republics were heavily reliant on natural resources extraction at the beginning of the transition period, and they have become more so over the last decade. Now, all the republics are reliant to a large degree on the extraction and sale of minerals and/or hydrocarbons to generate revenue (or rents). The exception, of course, is Uzbekistan which is heavily reliant on the sale of cotton as well as the extraction and sale of gold, but the essential principle of large-scale rent flows still holds there. Ross (2001) argues that natural resource extraction which generates considerable rent flows is correlated with the presence of authoritarian regimes. He identifies three main strands of theory about why this might be so—the rentier effect, the repression effect, and the modernisation effect.²⁸ In Central Asia, the problem is slightly different. Economic and political reform are a trade-off for the reforming politician: it will help some groups in society, but hinder others. Thus, the pay-off to reform needs to be high enough to the politician for them to see it as worthwhile. Importantly, natural resource extraction firms do not need a strongly developed institutional basis underpinning the market economy, they simply need to be able to extract the resources and get them out of the country relatively unencumbered. So, if such industries dominate economic activity, there will be little push for reform from the industrial sector. On the other hand, as North (1993) argues, more complex economies—those which involve extensive linkages across numerous firms, or involve firms undertaking more complex tasks than simply extracting minerals from the ground—will need reliable institutions to underpin their activity.²⁹ They will require functioning and

accountable regulatory institutions, coherent legislative frameworks, and effective impartial judiciaries. These are not things, for the reasons detailed in Chapter 5, that authoritarian regimes are not well equipped to provide.

Thus, the problem in Central Asia is not so much that the economic structure impedes democracy and economic reform, but that it does not require it. And, because there is no strongly-backed demand for increased political openness, there is no incentive for politicians to deliver it. Again, as the Kazak and Kyrgyz economies have come to be dominated by natural resource rents, economic reform has slowed, political reform has stopped, and institutional and governance reform have reversed. In short, the pay-off to political and economic reform is no longer great enough to make it worthwhile for the region's politicians.

NOTES

- ¹ Long before the Uzbek puzzle was recognised as such, one prescient commentator wrote: 'Uzbekistan is perhaps the luckiest of the new generation of landlocked Central Asian republics; its principal exports—gold and cotton—can both be airfreighted out to secure hard currency, while its increased oil production should soon secure savings of around \$500m a year' (*East European Markets*, 18 August 1995). In practice, it hasn't quite worked this way, and Uzbekistan has had some difficulties getting its product to market. For example, the Uzbek government claimed in 1997 that some consignments of cotton were being stolen en route by rail through Russia or the Ukraine, and the Uzbek government has struggled to prevent illegal cotton exports circumventing the low Uzbek procurement price (Zarudnaya 2003).
- ² On the civil war's effects on Tajik transport, see Gleason (2000).
- ³ See, for example, *ITAR-TASS*, 25 February 1993; reproduced in *BBC Monitoring Service: Former USSR*, 5 March 1993; *ITAR-TASS*, 15 October 1993; reproduced in *BBC Monitoring Service: Former USSR*, 22 October 1993; and Tajik Radio First, 15 November 1996; reproduced in *BBC Monitoring Service: Former USSR*, 22 November 1996.
- ⁴ The Zerafshan gold mine is a prominent example of this process. It commenced production as a joint venture between a Western mining concern and the Tajik government, and claims to be the largest private-sector employer in Tajikistan (<http://avocet.co.uk/ZGCHistoryBackground.html> [accessed 19 June 2004]).
- ⁵ For example, Gazprom was paying Turkmenistan \$35–40/1000 cubic metres before April 2003, when the purchase price was revised to \$44/1000 cubic meters plus goods in kind. Turkmen gas was selling for \$110–120 in Central and Eastern Europe at the time, but it was thought that this could be reduced to \$70–80 if Russia were bypassed. Either way, there appears to be a 100 per cent mark up at least on gas transiting Russia. Furthermore, the practice of barter is widespread and persistent: in July 2003, President Niyazov signed a deal to supply the Ukraine with natural gas to be paid partly in kind (*Agence-France Presse*, 12 July 2003; *Interfax Central Asia News*, 19 August 2003). See also, Ginsburg and Troschke (2003).
- ⁶ Government policy has exacerbated this. The government's approach has been to extract the revenues from gas, oil and cotton exports into state coffers through a punitive non-market based exchange rate regime, then redistribute these profits to selected targets within the country, thereby enriching themselves and supposedly minimising the social stresses that otherwise have derived from the transition process. Given the extent of government intervention in the economy, however, this has had the effect of making the entire economy dependent on oil and gas exports.
- ⁷ This is borne out by the merchandise trade analysis in section 6.3, which finds that exports of manufactured goods from Kazakhstan have plummeted, offset by increased exports of oil and gas; and that imports of such manufactured goods, as well as animal products, have increased greatly.
- ⁸ Critically, this has not happened in the way that transition theorists would expect: economic reform did not prompt the collapse of one sector, which then released resources for use in new sectors. Instead, geopolitical developments caused CIS trade and payments networks to collapse, which caused the manufacturing sector to collapse. That sector then released resources largely into unemployment, and the new sector, primarily oil and gas extraction, imported resources from outside the country to drive its own development.
- ⁹ See the trade analysis in section 6.3, which essentially finds a contraction in manufactured exports, countered by growth in exports of precious stones and metals.
- ¹⁰ The data used here are from the International Monetary Fund World Economic Outlook Database, but all data on Turkmenistan should be interpreted with caution, particularly that for later years.
- ¹¹ Put more bluntly, the Turkmen data are generally considered false. As a consequence, the international financial agencies and other statistical agencies, such as Goskomstat Rossii, generally no longer provide data relating to most aspects of Turkmenistan's economic activity. In this case, the Asian Development Bank data continue only until 2001, presumably for the same reason.
- ¹² Similarly, Turkmenistan's export revenues are channelled through the Foreign Exchange Reserve Fund, which is under the control of President Niyazov, to select industries and projects. They therefore do not appear on the budget (International Crisis Group 2003a; Pomfret 2001a).
- ¹³ Measurements of the black market value of the currency are understandably difficult to make. The manat seems to have traded at around 12,000 to the US dollar in late 1998, depreciating through 15,000 in January 2000, and reaching around 21,000–23,000 to the dollar in 2003–04 (*Middle East Review of Information*, 1 July 1999; *Interfax Statistical Report*, 21 January 2001; *EIU Viewswire*, 18 February 2004).
- ¹⁴ For comparisons of the terms of lending to the Central Asian republics, see Table 6.8 in the next section, which deals with external sector developments.

¹⁵ See section 3.2.2.

¹⁶ There is some inconclusive evidence for this in that all the Central Asian republics except Turkmenistan seem to have increased the CIS share in their imports from 1999 onwards. This follows the Russian financial crisis of 1998, which severely weakened the exchange value of the Central Asian currencies. Given that the Russian crisis occurred in mid-1998, however, we would have to ask why import shares showed no response in 1999. Also, official trade in Uzbekistan and Turkmenistan occurs at government-set exchange rates, which have not fluctuated much.

¹⁷ Other major destinations for Tajik aluminium are Hungary, Iran and Turkmenistan. See *Platts Commodity News*, 22 May 2003; *ITAR-TASS*, 9 February 2003; reproduced in *BBC Monitoring Service*, 10 February 2003.

¹⁸ The value of electricity imports sometimes exceeds that of alumina, but most of this represents trans-shipments. This will be discussed shortly.

¹⁹ Forty per cent of Tajikistan's alumina is produced by one plant in the Ukraine, much of the balance is supplied by alumina producers in Kazakhstan and Russia. More recently, Iran and Azerbaijan have begun exporting alumina to Tajikistan (see *Interfax Mining and Metals Report*, 9 August 2001; *Prime TASS*, 29 July 2002; *IPR Strategic Information Database*, 22 January 2003).

²⁰ See *Dow Jones Commodity Service*, 19 December 2003.

²¹ As discussed in section 6.1.3, Turkmenistan negotiated a deal under which Gazprom will pay US\$44/1000m³ for Turkmen natural gas, up from US\$36 in 2000 and even lower earlier (*APS Review Gas Market Trends*, 28 November 1994).

²² According to the Uzbek authorities, over 95 per cent of all cotton fibre exports from Uzbekistan in early 2004 were to non-CIS partners (*Interfax Food and Agriculture Report*, 13 May 2004). The equivalent figure for 2000 was 89.4 per cent (*Interfax Food and Agriculture Report*, 20 April 2000).

²³ See UNCTAD (n.d.). No data for Uzbekistan was available from this source at the time of writing; for that see IMF (2000c).

²⁴ Bakhtior Islamov (2001) claims that the government issued these bonds specifically to raise money for repayments on a previous bond issue.

²⁵ The grant element is a neat measure of the different components of concessional loans—the interest rate component and the length of the loan. Specifically, it is the difference between the principal loan amount and the discounted value of the future debt-service payments (ie. repayments of both the principal and interest incurred) as a proportion of the principal (IMF 2003a). For a given principal, lower interest rates mean lower interest incurred and hence lower debt-service payments; and longer terms of repayment mean a lower discounted value of debt-service payments.

²⁶ Lankes and Stern (1998) find that FDI is correlated with progress in transition but have to exclude Kazakhstan, Turkmenistan and Azerbaijan—the overwhelming recipients of FDI—to achieve this.

²⁷ See, for example, Auty (2001) and Jones Luong (1999).

²⁸ Briefly, as Ross (2001) argues, the rentier effect refers to situations where state revenues derived from resource exports allow the government to reduced taxes, to which the populace responds by demanding less government accountability. Higher state revenues, under this theory, also allow the government to channel money to particular groups who might otherwise press for greater freedom, in effect buying them off. The repression effect approach argues that higher revenues allow the state to bolster the repressive arms of power, thus suppressing movements in favour of democracy. The modernisation effect approach suggests that there are characteristics of a diversified market economy that lead to democracy, namely 'occupational specialization, urbanization, and higher levels of education', and that economies concentrated on natural resource industries do not generate these things widely.

²⁹ Dalmazzo and de Blasio (2001) and Esanov et al. (2001) find a link between resource abundance and poor incentives to reform. Crucially, however, their arguments are based on the idea of a mendacious self-interested government. This is entirely acceptable, but in the argument presented the government need not be mendacious, merely rational in making policy choices.

7 SOCIOECONOMIC CONDITIONS

The political and economic upheavals of the transition period have prompted massive change in the socioeconomic sphere. In Central Asia in particular, the withdrawal of subsidies from the all-Union centre has introduced sharp problems in maintaining funding for social services, such as health care and education. At the same time, the economic upheaval—the collapse of industry, the rise of unemployment, the erosion of incomes—has generated severe hardships among the populace. This, however, has not been equally distributed; some groups have been able to benefit from this period of extraordinary change while others have not. As a consequence, inequalities in income have emerged throughout the region. This chapter considers socio-economic developments in the Central Asian republics in the transition period, focusing on trends in health, education, poverty and inequality, areas in which considerable change has occurred. Funding levels, it finds, have declined considerably, but this has not led to deteriorations of a similar extent in health and education indicators. Poverty and inequality have increased almost universally throughout Central Asia during the transition period, contributing to difficulties among some groups in accessing social services and even in the worst cases meeting basic nutritional requirements. Despite the claims of some of the region's leaders, reform approach does not seem to have had an impact here—increases in poverty and inequality have been as severe, and in some cases more so, in the slower-reforming countries as the rapid reformers.

7.1 HEALTH

On gaining their independence, the Central Asian republics shared similar health sector conditions, and have suffered largely the same difficulties in the post-Soviet period. Diminishing resources, and particularly the removal of subsidies from the Soviet centre, have made it difficult for the republics to sustain previous levels of service provision. Even though health services have become more costly for individuals and governments have not been able to maintain Soviet levels of health spending, the effect in the transition period is not clear from the available data.

7.1.1 Health indicators

Life expectancies. Life expectancies in the region are generally low compared to Western levels, but are not unusually low compared with, for example, Russia or Turkey. Average life expectancy at birth in Central Asia in 2002 was around 68 years, compared to about 76 in OECD countries in 2001 (Table 7.1; OECD 2004). Changes in life expectancies

have shown a strange profile in Central Asia in the transition period in that they fell sharply in the mid 1990s, the most severe years of the transition dislocation. This is a pattern seen in all the Central Asian republics without exception, but Kazakhstan and Kyrgyzstan in particular have not yet recovered their 1990 life expectancy levels (Table 7.1).

Infant mortality. Curiously, this worsening has not been accompanied by an equivalent deterioration in infant and under-5 mortality rates. The data suggest that infant mortality increased slightly in only Kazakhstan during the early-mid transition period, but has since recovered. In all other cases, infant mortality simply declined through the 1990s. Mortality rates among children five years and under have been slightly different: rates deteriorated in Turkmenistan, Tajikistan and Kazakhstan initially but, according to the data, subsequently improved in Turkmenistan and Kazakhstan.¹ They did not deteriorate in Kyrgyzstan and Uzbekistan (Table 7.2).

This conflicts with what we would expect in the transition. We would anticipate that the fiscal stresses of transition would induce a reduction in government spending on health services, and that private spending on health services would be relatively inflexible given the general impoverishment of the population. We would anticipate that these factors would reduce the amount and quality of services available in the republics and limit poor people's use of such services, and this would impact most severely on infant health. This has not happened; infant mortality has not increased in the post-Soviet period in Central Asia.

A number of interpretations are possible, but two are obvious: (1) health conditions are generally not deteriorating in Central Asia, (2) maternal and child health conditions are not worsening in spite of an overall degradation in health conditions.² The first seems unlikely; as we will see later, health spending has declined in all the republics, as has the number of health personnel. Thus, it seems likely that the burden of declining health sector conditions is falling disproportionately on adults.

Table 7.1 Life expectancy at birth, 1990–2002

	Overall			Male			Female		
	1990	1995	2002	1990	1995	2002	1990	1995	2002
Kazakhstan	68.8	65.0	66.2	63.9	59.3	60.9	73.4	70.4	71.6
Kyrgyzstan	68.8	65.5	68.0	64.4	61.3	64.1	73.0	69.9	72.1
Tajikistan ^a	70.0	68.0	72.0	67.4	65.4	70.2	72.6	70.6	73.9
Turkmenistan	66.6	65.2	..	63.1	62.1	..	70.0	68.4	..
Uzbekistan	69.7	67.9	70.0	66.0	65.0	67.6	72.9	70.7	72.5
Russia	69.1	65.0	65.1	63.8	58.3	58.9	74.3	71.7	72.0
Turkey				64.2	64.9	65.8	68.7	69.4	70.4
Australia				73.9	75.0	76.6	80.1	80.8	82.0

Note: ^a Latest data available for Tajikistan is for 2001. The latest data available for Turkmenistan are for 1998; the relevant figures for that year are Overall: 66.1, Males: 62.5, Females: 69.8.

Source: WHO/Europe, 2003. Health For All Database, World Health Organization Regional Office for Europe, Copenhagen. Available online at http://www.who.dk/InformationSources/Data/20010827_1; TransMONEE Database; OECD, 2004. OECD Health Data 2004, Organisation for Economic Cooperation and Development, Paris. Available online at <http://www.oecd.org/> [accessed 25 June 2004].

Table 7.2 Infant and under-5 mortality, 1990–2000 (per 1000 live births)

	1990	1995	2000
Infant mortality			
Kazakstan	26.3	27	19.2
Kyrgyzstan	30	28.1	22.6
Tajikistan	40.7	36.2	
Turkmenistan	45.2	42.2	25.4 ^a
Uzbekistan	34.3	25.8	19.1
India	80	..	63.1
China	..	..	28.9
Australia	7.7	..	4.9
Under-5 mortality			
Kazakstan	34	36.5	25.4
Kyrgyzstan	41.3	41.3	33.2
Tajikistan	61.5	71.3 ^b	
Turkmenistan	64.1	67.9	45.9 ^a
Uzbekistan	47.5	42.5	32.9 ^a
India			93 ^c
China			39 ^c
Australia			6 ^c

Notes: ^a1999 figure, ^b1994 figure, ^c 2001 figure.

Source: TransMONEE database.

Adult mortality. What these developments suggest is that the mid-transition deterioration in life expectancies is an adult phenomenon. That is, it is being driven by heightened mortality among adults. This appears to be the case; alarming rises in mortality among 40–59 year olds around 1994–95 were the primary cause of deteriorations in life expectancies (see Appendix Table 7.1). This burgeoning mortality was worst in Kazakstan and Kyrgyzstan, but occurred to some extent in all the republics. Recovery has also occurred in all the republics, but has so far been only partial in Kazakstan and Kyrgyzstan.

7.1.2 Disease and other causes of mortality and morbidity

Thus the cause of elevated mortality strikes with exceptional severity among the middle-aged and is particularly strong in Kazakstan and Kyrgyzstan. Interestingly, these are the republics that have moved fastest on economic reform and also the republics with the highest proportion of Russians and other Slavs.³ The next sub-section considers the dynamics of mortality and morbidity in the Central Asian republics to see whether any explanations for this trend can be found.

Mortality trends. Mortality from diseases of the circulatory system initially increased in all the republics during the transition period, but subsequently improved slightly in Turkmenistan and Uzbekistan. Similarly, death rates from heart disease increased in the mid-transition years in all the republics except Tajikistan, and seem to have stabilised in the second half of the 1990s in all except Kyrgyzstan. Cerebrovascular disease mortality increased from 1990 onwards in Kazakstan, Kyrgyzstan and Uzbekistan, peaking around

1994 but staying high thereafter; it has decreased considerably from 1985 levels in Turkmenistan and Tajikistan, albeit with slight peaks around 1993–94. Rates of death related to malignant neoplasm (ie. cancer) have declined in the all the Central Asian republics since 1985. Mortality related to diseases of the digestive system has increased in all republics except Tajikistan since 1985, and deaths from tuberculosis have increased throughout the region. Overall, however, deaths from diseases of the respiratory system have fallen everywhere despite slight peaks in the early 1990s (HFA Database, January 2004).

Violence and external injury trends are slightly different. External injury and poison as a cause of death have declined slightly since 1985 in Turkmenistan and Uzbekistan, and also in Tajikistan notwithstanding a war-related peak in 1993. They have been steady in Kyrgyzstan, and have increased in Kazakhstan. Death rates due to homicide and

Table 7.3 Central Asian republics: mortality trends, 1985–2002
(standardised death rates, per 100,000 of the population)

	1985	1991	1994	1998	2000	2002
Diseases of the circulatory system						
Kazakstan	616.7	619.5	787.6	801.3	787.9	822.9
Kyrgyzstan	576.9	532.2	688.4	631.3	658.5	716.3
Tajikistan	449.0	475.5	654.2	588 ^a	569.6	589.5 ^b
Turkmenistan	693.3	814.0	1025.1	844.4	..	..
Uzbekistan	597.6	637.8	852.6	782.5	772.3	748.8 ^b
Ischaemic heart disease						
Kazakstan	331.0	314.8	416.3	404.7	402.7	443.3
Kyrgyzstan	313.5	259.5	337.4	330.7	342.0	378.5
Tajikistan	238.6	547.9	296.2	236.5 ^a	251.1	260.7 ^b
Turkmenistan	393.2	507.1	587.5	440.3	..	..
Uzbekistan	390.0	390.0	528.1	470.6	449.3	409.5 ^b
Cerebrovascular disease						
Kazakstan	192.7	207.0	243.3	248.0	239.6	221.4
Kyrgyzstan	222.1	227.1	277.7	245.1	259.4	272.1
Tajikistan	132.9	149.1	142.2	71.1 ^a	69.1	80.6 ^b
Turkmenistan	237.6	153.6	211.2	85.6	..	..
Uzbekistan	169.4	175.2	232.2	178.2	192.1	206.2 ^b
Tuberculosis						
Kazakstan	..	14.1	21.7	46.6	30.8	29.1
Kyrgyzstan	..	12.6	20.1	26.1	28.8	28.7
Tajikistan	..	n.a.	12.7	13.2 ^a	16.6	19.1 ^b
Turkmenistan	..	16.8	21.2	27.8	..	..
Uzbekistan	..	13.3	14.6	19.5	21.3	21.2 ^b
Homicide and intentional injury (population 0–64)						
Kazakstan	9.4	13.58	19.98	19.69	17.85	13.8
Kyrgyzstan	6.7	12.18	19.63	9.47	9.62	7.6
Tajikistan	3.0	3.59	15.44	5.34 ^a	4.5	3.3 ^b
Turkmenistan	5.8	6.51	5.62	8.58	..	..
Uzbekistan	4.8	7.87	6.26	4.52	3.77	3.9 ^b

Notes: ^a1999 figure.

Source: WHO/Europe, 2003. Health For All Database, World Health Organization Regional Office for Europe, Copenhagen. Available online at http://www.who.dk/InformationSources/Data/20010827_1.

intentional injury rose in Kazakhstan, Kyrgyzstan and Tajikistan during the transition period, but have improved more recently in all cases; they were basically steady in Turkmenistan and Uzbekistan.

This points to an increased prevalence of diseases of the middle-aged in Central Asia since 1985, with particular severity in Kazakhstan, which goes some way to explaining the mortality profiles shown in Appendix Figure 7.1. This has been complemented in some cases by increased numbers of ‘unnatural’ deaths through murder and injury. Though the aggregate data given here do not show it, McKee and Chenet (2002) note that these trends seem to be more pronounced among men than women, and they attribute the changes and differences to aspects of lifestyle—patterns of alcohol consumption among some groups, smoking, diets high in fat and low in antioxidants—and to poor diagnosis and preventive measures for these causes of death in the region.

Morbidity. Communicable diseases are of course a problem, but no clear trends can be discerned. Tuberculosis is everywhere a growing problem: all the Central Asian republics experienced increased morbidity from tuberculosis from 1985 to 2002, but it was worst in Kazakhstan and Kyrgyzstan. Diphtheria worsened everywhere in during the transition but then recovered, a pattern mostly due to a transient epidemic that began around 1993.⁴ On the other hand, the incidence of viral hepatitis, as well as measles and mumps, seems to have declined since 1985 judging by the statistics we have available, but no obvious trend has emerged in the incidence of rubella (HFA database, January 2004). Malaria broke out seriously in Tajikistan in the second half of the 1990s, and Kyrgyzstan at the turn of the century, but not to any great extent in the other republics (Table 7.4).

Sexually transmitted diseases have emerged as a serious problem. The number of new HIV infections reported annually is increasing in all the Central Asian republics that are willing to publish statistics on the issue (Table 7.4). The AIDS Foundation East–West (2002) claims that the primary transmission mechanism for HIV/AIDS in the region is injection by drug users, a situation exacerbated by the wide availability of cheap heroin given Central Asia’s role as a transit-way for Afghan production. In this regard, poor public education (harm minimisation) about safe use and disposal of needles means that this problem will probably not long remain confined to injecting drug users. The Soviet tendency to rely on abortion rather than condoms as a means of birth control has facilitated wider transmission of sexually-transmitted diseases in most of the CIS. But, while this continues to exert an influence in Russia, it is less likely to be a major influence in Central Asia owing to the Muslim aversion to abortions and more conservative attitude to sexual matters overall.

This factor is partly reflected in the incidence of syphilis. Starting with roughly similar incidences in Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan, reported cases of syphilis have increased far more rapidly in Kazakhstan than any of the other republics, with Kyrgyzstan showing the next quickest growth. A number of reasons could be adduced for this: Kazakhstan had the highest proportion of Russians in the Soviet era, and they are still over 30 per cent of the population; both countries have opened up to the West far more rapidly than the others (Kazakhstan for resources investment, Kyrgyzstan for tourism); and the traditional—that is, Muslim—culture is weakest there. On the other hand, increasing emphasis on the traditional culture may be decreasing the number of

Table 7.4 Central Asian republics: selected morbidity indicators, 1985–2002
(per 100,000 of the population)

	1985	1990	1994	1998	2000	2002
New HIV infections reported						
Kazakstan		0.024	0.0118	1.98	2.33	
Kyrgyzstan		0.0688	0	0.1286	0.3274	
Tajikistan		0	0	0.0168	0.1131	
Turkmenistan		..	..	..	..
Uzbekistan		0	0	0.0125	0.6247	
Diphtheria incidence						
Kazakstan	0.1204	0.168	2.89	0.4976	0.0874	0.0942
Kyrgyzstan	0.1002	0.1376	6.85	2.96	0.3069	0.0604
Tajikistan	..	0.2075	34.1	2.8	0.1778	0.1708
Turkmenistan	..	0.1094	1.48	0.3823	0.6728	0.0203
Uzbekistan	..	0.0588	1.03	0.0167	0.0162	0
Malaria incidence						
Kazakstan	0.19	0.02	0.15	0.58	0.25	0.13
Kyrgyzstan	0.2	0.02	0.14	0.24	0.25	55.24
Tajikistan	12.02	3.3	43	325.85	308.06	95.64
Turkmenistan	0.47	0.03	0.22	2.91	0.54	0.37
Uzbekistan	0.52	0.14	0.09	0.31	0.51	0.29
Acute poliomyelitis						
Kazakstan	0.0507	0.042	0.0178	0	0	0
Kyrgyzstan	0.0251	0.0229	0	0	0	0
Tajikistan	..	0.0377	0.4637	0	0	0
Turkmenistan	..	1.09	0.1483	0	0	0
Uzbekistan	..	0.2057	0.5341	0	0	0
Syphilis incidence						
Kazakstan	10.41	1.45	32.32	239.13	161.38	..
Kyrgyzstan	18.7	1.97	22.45	144.18	87.53	60.64 ^b
Tajikistan	..	1.62	7.97	23.04	12.93	11.71
Turkmenistan	..	4.62	15.03	47.7 ^a	..	..
Uzbekistan	..	1.78	11.28	44.99	29.55	27.63 ^b
Viral hepatitis						
Kazakstan	376.43	479.66	234.54	266.91	185.63	..
Kyrgyzstan	590.93	638.84	466.4	321.79	417.84	..
Tajikistan	..	547.7	284.19	124.63	..	..
Turkmenistan	..	360	234.95	..	..	..
Uzbekistan	..	864.6	474.56	236.34	157.2 ^a	..

Note: ^a1999 figure. Morbidity indicators for the Central Asian republics should be treated with a great degree of caution. As medical care becomes less affordable for the majority of the population, people are less likely to present with more-or-less survivable conditions and are more likely to self-medicate. Hence, the recorded incidence of some diseases is likely to be far less than actually exists.

Source: WHO/Europe, 2003. Health For All Database, World Health Organization Regional Office for Europe, Copenhagen. Available online at http://www.who.dk/InformationSources/Data/20010827_1

reported cases rather than the actual incidence. The situation appears to have improved slightly through the late 1990s in all republics.

Morbidity statistics are difficult to interpret because people will tend to present less for health care with illnesses that are not life-threatening as the costs of health care increase and personal incomes decrease. Given the increase in health care costs and decrease in personal incomes in Central Asia over the last decade, some of the ostensibly positive

developments in morbidity shown by these statistics may actually reflect a negative factor—people are not seeking medical care because they cannot afford it.

7.1.3 The economics of health in Central Asia

The economic cost of poor health is hard to reckon. Clearly, the Central Asian republics will bear the direct costs of treating ill health, but they also bear a cost in terms of productive lives forgone. Together, these costs can be enormous (Commission on Macroeconomics and Health 2001). Beyond economics, premature deaths and general ill-health represent an avoidable tragedy—not to mention the financial burden—for individuals and families.

Fiscal strain brought about during, and to an extent by, the transition has imposed severe financial difficulties on the health sectors in all the Central Asian republics. Some major consequences flow from this difficulty: degradation of health-sector infrastructure and capital, lack of health sector resources/supplies, and poor (often non-) payment of health care workers.

The Soviet Union operated an extensive system of health care provision. Almost the entire population could access at no or little cost a system of health care comparable to that available in Western Europe. The system was complicated, however, in that many services were delivered by enterprises to employees and their families rather than by the state. When the Soviet economy collapsed, these enterprises had to shed these services to remain competitive, leaving health care provision to the state. Unfortunately, the independent Central Asian republics have not been able to sustain these levels of service during the transition period. Expenditures on health as a percentage of GDP fell by more than one-half in Kazakhstan and one-third in Kyrgyzstan between 1991 and 2000. Uzbekistan's spending on health also halved in this period, and spending on health in Tajikistan fell from 3.4 per cent of GDP in 1993 to 0.6 per cent in 2000. Spending on health as a proportion of GDP apparently increased in Turkmenistan, although we may choose not to believe this data. It should be noted that GDP first declined massively in most of the republics and then recovered at different rates in each republic during this period (see Chapter 6), so the absolute level of government spending is not clear but must

Table 7.5 Central Asian republics: expenditure on health, 1991–2000

	Total expenditure on health(% of GDP)					Government share of total (%)	
	1991	1994	1997	2000	2000 Goskomstat figures	1995	2000
Kazakstan	4.4	2.0	1.9 ^c	1.9	2.1	81.8	73.2
Kyrgyzstan	3.4 ^a	3.3	3.2	2.1 ^d	2.0	88.1	61.7
Tajikistan	3.4 ^b	2.5	0.6	0.6	0.9	60.5	80.8
Turkmenistan	..	1.6	3.7	3.4 ^e	..	77.1	84.9
Uzbekistan	5.9	4.6	3.0	3.0	4.1	77.3	77.5

Notes: ^a 1992 figure. ^b 1993 figure. ^c 1998 figure. ^d 1999 figure. ^e 1998 figures.

Source: TRANSMONEE database; World Health Organisation, 2003. *World Health Report*, World Health Organisation, Geneva; Goskomstat Rossii, 2002. *Rossiya i strany mira*, Goskomstat Rossii, Moscow

obviously have declined considerably in all republics, except Turkmenistan where spending as a proportion of GDP has increased (according to these data) but GDP itself has decreased. Similar figures provided by Goskomstat Rossii (2002) suggest that expenditure as a proportion of GDP fell to 2.1 per cent in Kazakhstan, 2.0 per cent in Kyrgyzstan and 0.9 per cent in Tajikistan in 2001. The lack of Turkmen data for 1999 and 2000 imply that the situation there is not as satisfactory as the other data suggest.

The infrastructure for health care provision has been deteriorating since independence, and probably longer. Major facilities and pieces of equipment are falling apart. The budgetary pressures are such that repairs, and purchases of new equipment, are not possible, and, as a consequence, equipment that does work is largely obsolete. In the circumstances, it is likely that the safety and quality of medical/health services provided to the populations of Central Asia has deteriorated (Asankanov and Osmonov 2002). This trend is reflected in the statistics for hospital beds, which indicate declines throughout the region reaching more than 50 per cent in some republics (Table 7.6).

The payment of health workers is another issue of concern. Health workers were not highly paid under the Soviet system, and little has changed in the post-Soviet era. In the period 1993–98, for example, health-sector workers in Kyrgyzstan received about 70 per cent of the average wage for workers in the republic (European Observatory on Health Care Systems 2000; Falkingham 2002). Instances have also been reported of health workers being paid belatedly or not at all—as has happened with many other workers in post-Soviet Central Asia (Falkingham 2002, 2004). The results are predictable: the number of health workers has fallen (Table 7.6) and unofficial payments have grown widespread.

The full extent of unofficial payments to health-workers and their institutions is quite hard to determine, but they are indisputably emerging in health care systems in the region. Such payments can be monetary or in-kind, and are most commonly made to individual health-care workers rather than to institutions (Ensor and Savelyeva 1998). It is also apparently common for patients to have to purchase whatever pharmaceuticals are required for a course of treatment provided by a medical institution (Ensor and Savelyeva 1998). And some families in Tajikistan, according to Falkingham (2004), have even taken

Table 7.6 Central Asian republics: physicians and hospital beds
(per 1000 population)

	Physicians			Hospital beds	
	1991	1995	2000	1980	2002
Kazakhstan	396.8	380.1	329.2	13.1	7.0
Kyrgyzstan	360	323.4	288.3	12.0	5.5
Tajikistan	256	219.4	218.3	10.6 ^b	6.3
Turkmenistan	353.4	317	301.2 ^a	10.5	7.1 ^c
Uzbekistan	359.5	335.8	334 ^a	11.3	5.5

Note: ^a 1999 figures. ^b 1985 figures. ^c 1997 figures.

Source: TransMONEE database, 2002. World Bank, 2004. *World Development Indicators 2004*, World Bank, Washington, DC.

to providing medical care (such as administering injections or medicine) to hospitalised family members to avoid having to make the payments expected if a staff member were to perform the activity.

While they ease the financial difficulties facing health-care workers and institutions, unofficial payments are problematic in that they can decrease the affordability of health care for a large portion of the population (see, for example, Rysakova et al. 2002; 'Expert' Center for Social Research 1999; Falkingham 2002). It seems likely that poorer groups in society cannot afford the payments necessary to access proper health care, but this is tempered by Ensor and Savelyeva's (1998) observation that the amount of the unofficial payment demanded may vary according to perceptions of how poor the patient is. The existence of this practice is essentially confirmed in Falkingham (2004), who nevertheless finds evidence that a fairly high proportion of people in Tajikistan do not seek necessary medical care because they cannot afford it.⁵ World Bank (2003b) finds a similar development in Uzbekistan.

Health outcomes in Central Asian populations during the transition period have paralleled developments in the economy. That is, a similar pattern of initial deterioration followed by eventual slight recovery can be seen in many of the indicators for population health presented above. It is not clear how reliable the data are, but they imply a transient deterioration in the health situation in the transition, which has stabilised in most cases in recent years. But data for infant mortality suggest that the deterioration of health systems is not solely responsible for the decline in health conditions in the region. This seems to be borne out in the unequal distribution of mortality—the middle-aged in the advanced reformers, Kazakhstan and Kyrgyzstan, have been disproportionately harshly affected. Why this has occurred is open to speculation, but a number of possible causes can be raised.

1. Ethnic composition. Russians and other Slavs are a far higher proportion of the population in Kyrgyzstan and, especially, in Kazakhstan than in the other republics.
2. Dislocation. It may be that dislocation associated with transition caused ill-health with particular force among the middle-aged.
3. Selective use of health services. It may be that, given limited incomes, people target health expenditures towards children and infants, at the expense of the middle-aged. Kazakhstan and Kyrgyzstan are the countries where the share of private expenditure on health has grown most rapidly (see Table 7.5), and families faced with increasing costs of medical care may be more willing to pay to ensure health for children than for adults.

Economically, the Central Asian republics' health sectors have been squeezed by fiscal deterioration in all the republics (bar, perhaps, Turkmenistan). Lower funding has meant that health infrastructure is degrading, health workers are underpaid or unpaid, and the costs of health care are increasingly being put on individuals, who are sometimes not able to afford it. This has occurred irrespective of the choice of reform path. The slower reformers, Turkmenistan and Uzbekistan, have not for example been able to maintain Soviet levels of physicians or hospital beds, although the rate of decline thus far has been lower. In some respects, morbidity and mortality trends in these economies have been better than elsewhere in the region, but it is again not clear that this was due to reform approach.

7.2 EDUCATION

7.2.1 The Soviet era and transition

Education is a critical aspect of development. As with the health sector, education is an area in which the Soviet Union had considerable success (Jukes 1973). In saying this, some caution is required. The oasis centres of Central Asia had long been repositories of learning and knowledge in the Arab-Persian Islamic tradition, and the region had a strong literary and scientific tradition that far preceded the imposition of Russian, and later Soviet, culture (Allworth 1994). These traditions, however, were confined to élites within the major oasis centres of what are now Uzbekistan and Tajikistan. Among the nomadic groups, particularly of Kazakstan and Kyrgyzstan, Islam was a very late adoption and had little influence on literacy. Overall, then, literacy in the region was low and education far from universal prior to Soviet rule (Soucek 2000). Using census data from 1926 and 1959, Allworth (1994) posits an average literacy rate in 1926 of 3.6 per cent in Central Asia. The 1959 census found an average of 52.1 per cent.⁶ In 2000, this rate was approximately 97.8 per cent (Table 7.7). Whatever the shortcomings of the Soviet system, it was able to raise literacy rates in Central Asia from extremely low levels to almost universal.

The transition period has had a large impact on education spending, facilities and enrolments in the Central Asian republics. State education spending has decreased everywhere in the region, as a proportion of GDP and absolutely, but the number of educational facilities has not always followed this decline. The number of higher education facilities, for example, has apparently increased in all the republics through the transition period. Similarly, trends in enrolments are far from uniform.

7.2.2 Education funding

As a proportion of GDP, education funding has not fared well (see Table 7.8). It appears from the data below to have decreased in all republics, but with particular severity in Tajikistan, which saw funding drop from 11.2 per cent in 1991 of GDP to 1.9 per cent of GDP in 1997 at a time when GDP itself fell by 70 per cent. Little data is available for Uzbekistan, but what we have implies that education spending in that country has fallen more slowly than elsewhere, from 10.2 per cent of GDP in 1992 to 8.4 per cent in 1995. Goskomstat Rossii presents different data for Kazakstan, Kyrgyzstan and Tajikistan,

Table 7.7 Adult literacy rate (15 years old +), 2000 (per cent)	
	2000
Kazakstan	98.0
Kyrgyzstan	97.0
Tajikistan	99.2
Turkmenistan	98.0
Uzbekistan	99.2

Source: UNDP, 2002. *Human Development Report 2002*, United Nations Development Program, New York.

Table 7.8 Education spending as proportion of GDP, 1991–99 (per cent)

	1991	1994	1997	1999
Kazakhstan	7.6	3.0	4.3	..
Kyrgyzstan	8.0 ^a	6.1	4.9	4.1
Tajikistan	11.1 ^b	..	1.9	2.1
Turkmenistan	9.6	2.2	4.5	5.4
Uzbekistan	10.2 ^b	..	..	..

Note: ^a 1990 figure. ^b 1992 figure. Goskomstat Rossii's (2002) data differ slightly. Their figures for 2000 are: 3.3 per cent in Kazakhstan, 3.5 in Kyrgyzstan, and 2.3 per cent for Tajikistan. Their figure for Uzbekistan is for 1995 and is 8.4 per cent.

Source: McKee, M., Healy, J. and Falkingham, J., 2002. *Health Care in Central Asia*, Open University Press, Buckingham; TransMONEE database.

which imply slightly different levels of spending in 2000 but confirm the overall decline in education spending in these countries. This, moreover, does not take into account the fact that real GDP during this time has plummeted in almost all the republics (Klugman 1999). Thus, absolute levels of education spending must have fallen considerably since the Soviet period in all the Central Asian republics.

As a consequence, funding of educational organisations and personnel has deteriorated considerably. While the number of educational facilities has apparently increased in the transition period, it is not clear what is happening to the quality of these facilities, their staffing, or the volume and quality of teaching materials available to them. As with health care, funding of education is increasingly being borne by the individual, and the sector has come to rely on private payments both legitimate and illegitimate. Education at higher levels seems increasingly to be based on some form of legitimate private funding through the imposition of tuition fees, but anecdote suggests that access to education and success in education is increasingly dependent on bribes.⁷

7.2.3 Factors influencing enrolments

Supply. On the supply side, the fiscal problems experienced in all the republics contributed to difficulties in the education sector. In most cases, the problems have revolved around maintaining facilities and staff.

At the pre-school level, decreased funding, alongside withdrawal of enterprises from provision of social services, has caused the closure of many schools (Table 7.9). All of the Central Asian republics have suffered falls in the number of pre-school facilities available, on both an absolute and per capita basis. At higher levels of education, the pattern has been different: the number of educational facilities has grown in all the republics according to CIS statistics. The number of general schools has risen, albeit slightly, in all republics except Kazakhstan; and the number of higher education establishments has increased dramatically in Kazakhstan, Kyrgyzstan and Tajikistan and less dramatically in Turkmenistan and Uzbekistan.

Despite this apparent growth in the number of educational institutions, lack of funding seems to have caused degradation of education infrastructure. So, where schools and other educational facilities exist, they may lack heating, functioning toilets and educational materials. Tajikistan, because of the civil war, represents the extreme example.

Facilities there were damaged by war and natural deterioration and went unrepaired because of lack of funding (World Bank 2000a). School buildings, according to UNDP (1999), often have no heating and schools face a shortage of teachers. It must be noted that Tajikistan started the transition in by far the worst position of any of the Central Asian republics in terms of its educational facilities, and represents the most extreme manifestation of this problem, but similar developments are reported elsewhere. Klugman (1999), for example, reports a lack of teaching materials and disrepair of school facilities in Karakalpakstan in Uzbekistan. Similarly, Bauer et al. (1998) report temporary closures of schools in the middle years of the transition in both Kazakhstan and Kyrgyzstan owing to lack of heating. The International Crisis Group (2003b), furthermore, claims that two-thirds of all rural schools and half of all urban schools in Uzbekistan have no functioning toilets.

Table 7.9 Number of educational establishments, 1991–2000

	1990	1995	1999	
Preschools ('000)				
Kazakstan	8.7	5.1	1.1	
Kyrgyzstan	1.7	0.4	0.4	
Tajikistan	1.0	0.6	0.5	
Turkmenistan	1.6	1.4	1.1 ^a	
Uzbekistan	9.7	8.5	6.7	
Number of children per preschool ^b				
Kazakstan	218	305	1082	
Kyrgyzstan	371	1285	1368	
Tajikistan	928	1517	1778	
Turkmenistan	364	477	538	
Uzbekistan	334	391	453	
	1991	1995	1999	2000
Number of general education establishments				
Kazakstan	8.6	8.7	8.3	8.3
Kyrgyzstan	1.8	1.9	2	2
Tajikistan	3.2	3.4	3.6	3.6
Turkmenistan	1.8	1.9	..	..
Uzbekistan	8.6	9.3	9.7	..
Number of higher education establishments				
Kazakstan	61	112	163	170
Kyrgyzstan	12	35	39	45
Tajikistan	13	24	29	30
Turkmenistan	9	15	..	..
Uzbekistan	52	58	61	..

Note: ^a 1998 data. ^b This figure was derived by dividing the number of preschools by the population of children 0–4 in the country.

Sources: Goskomstat Rossii, 2002. *Rossiia i Strany Mira*, Goskomstat Rossii, Moscow. TransMONEE database; Statkomitet SNG, 2001. *SNG v 2000 godu*, Statkomitet SNG, Moscow; TransMONEE database.

The other side of the supply problem is lack of skilled staff. Teachers, like many workers in the post-Soviet republics, have not generally been paid well. They have also suffered, with many others, late or non-payment of wages. Together, these factors combine to make teaching either unattractive or unviable as a career, leading teaching staff to seek other work, and have also contributed to the rise of unofficial payments for education. In consequence, the supply and quality of educational services in Central Asia is increasingly being limited by the lack of skilled staff (Vandycke 2001; Rysakova et al. 2002).

In Turkmenistan, the supply of education has withal been explicitly curtailed by government policy. The government has reduced the number of years of basic education from eleven to nine, and the number of years of higher education from five to two years of study and two years of forced labour. It has also reduced the range of subjects available to students, refused to recognise qualifications from overseas institutions (*Eurasianet.org*, 5 May 2004), and has restricted the number of people who can study at higher levels domestically, such that only around 3000 students were enrolled in higher education in 2001–02 according to International Crisis Group (2003a).

Demand side. Education is an investment made by the person being educated, usually that person's family, and very often the state, to develop a set of skills that will over the longer term yield benefits both to the individual educated and to society more generally (see, for example, Vandycke 2001). As with any other investment, an individual will forgo education if the up-front costs are too high or exceed the perceived benefits. In the transition, this trade-off took on especial salience as many families were increasingly impoverished and education grew more expensive for the individual. Thus, trends in enrolment in the region, as elsewhere, reflect the trade-off between current costs—directly in such expenses as tuition fees, books, materials, and indirectly in income or subsistence production forgone—and future benefits, such as higher income and increased job prospects and mobility. We would expect, therefore, that economic strain would be associated with lower enrolments.

That said, education seems to have remained a very high priority for many households in Central Asia. The 'Expert' Center for Social Research (1999) reported, for example, that receiving a good education ranked first or second (depending on the respondent's income level) among criteria of well-being in groups surveyed in Uzbekistan. World Bank (1999a) confirmed this, finding that Kyrgyz households in 1997 spent a very high proportion of their income on education, from 10.2 per cent for the extreme poor to 7.8 per cent for the non-poor. This report also identified that, while enrolment rates are relatively even in the compulsory-schooling age groups, a wide differential is opening up in the post-compulsory levels, such that only 53.5 per cent of the extremely poor aged 16–17 in Kyrgyzstan were enrolled in some form of education, whereas 67.9 per cent of the non-poor were enrolled. Similar patterns were found in Tajikistan, where secondary enrolments were found to be much lower, at 79.6 per cent of the relevant population, in the lowest quintile of the population than in the three highest quintiles, in which 86–88 per cent of the relevant population was enrolled. Technical and higher education enrolments were consistent with this pattern (World Bank 2000a).

Access to education seems to be limited first by the cost of education itself, and second by the costs of equipping students for school. School students, even quite young ones, in some cases have to work, outside school hours or during school holidays, to pay for education fees.⁸ Falkingham (2000), on other hand, reported that a high level of absenteeism among poor Tajik school students was because they lacked suitable clothes or shoes. The future pay-off to education is also becoming a factor: the future pay-off to education needs to be high enough to make current sacrifice worthwhile. In this regard, World Bank (2000a) claims that secondary education was perceived by some people in Tajikistan to be irrelevant given the labour market situation and outdated curricula.

7.2.4 Enrolment figures

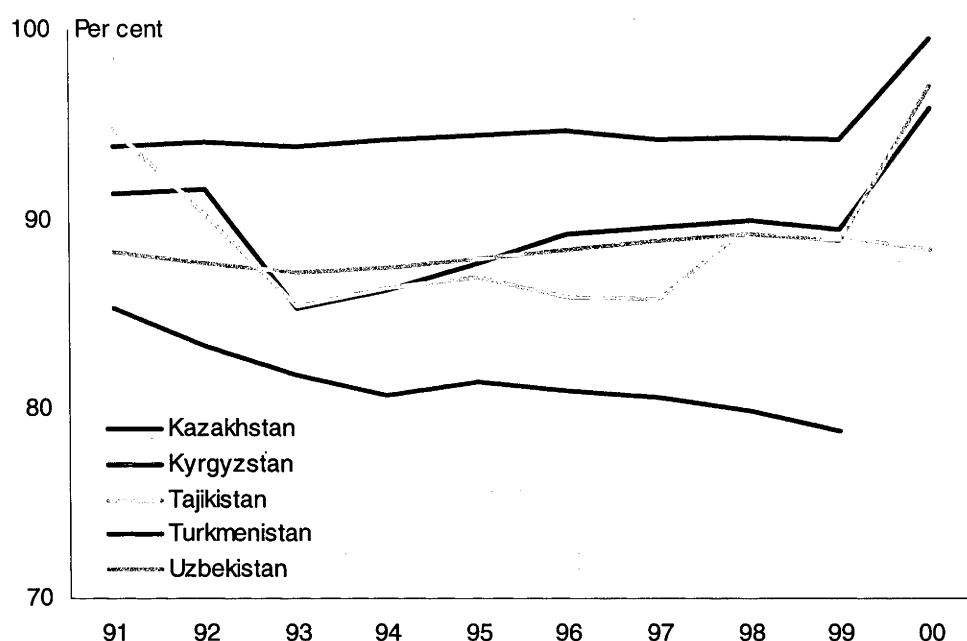
It is not possible to make broad generalisations about enrolments in the region over 1991–2000. Some countries have seen transient declines in enrolment at all levels of education; in other countries the decline has been far more protracted at most levels of education, but some levels of education in particular countries have not been greatly affected. A number of factors, both on the supply and demand sides have contributed to the changing patterns of enrolment through the 1990s.

Basic education. Enrolment rates in basic education followed different paths across the republics. Kazakhstan experienced virtually no change in enrolments during the transition period 1991–2000. The same is true of Uzbekistan. Both Tajikistan and Kyrgyzstan—the poorest of the Central Asian republics—experienced severe declines around 1992–93. Kyrgyzstan had recovered by 1996, whereas Tajikistan did not recover until 1998. Turkmenistan has shown persistent decline (Figure 7.1). It is likely, moreover, that the statistics for all republics overstate the true enrolment situation, as many children are enrolled but do not, or cannot, actually attend classes (see, for example, World Bank 2000a, 2003b). Thus, World Bank (2000a) notes that high rates of absenteeism in Tajikistan are connected with, among other things, lack of clothing and bad weather conditions.⁹

It seems likely that economic hardship contributed to the enrolment declines seen in Kyrgyzstan, Tajikistan and Turkmenistan, but some consideration should also be given to the role of agriculture in employment in these republics. Whereas the agricultural sector employs around 35 per cent of the population in Kazakhstan and Uzbekistan, it employs 52.9 per cent in Kyrgyzstan, 65.6 per cent in Tajikistan, and 47.6 per cent in Turkmenistan (Goskomstat Rossii 2002). Agriculture represents the fall-back option for the population in these republics—workers fall back to traditional family employment in agriculture when other opportunities dry up. It may be that many children in these republics moved back to the agricultural sector to bolster food production within the family, eschewing education as not worthwhile—temporarily in Tajikistan and Kyrgyzstan, permanently in Turkmenistan.

Secondary school enrolments. Secondary school enrolments followed a rather different pattern. At the outset of transition, enrolments at this level of education were far from universal, and only approximately 30–40 of the population aged 15–18 years old in any of the Central Asian republics was enrolled in general secondary education.¹⁰ Unlike basic-level education enrolments, enrolments in general secondary education dropped

Figure 7.1 Basic education enrolment, gross rates, per cent of relevant population, 1991–2000 (per cent)



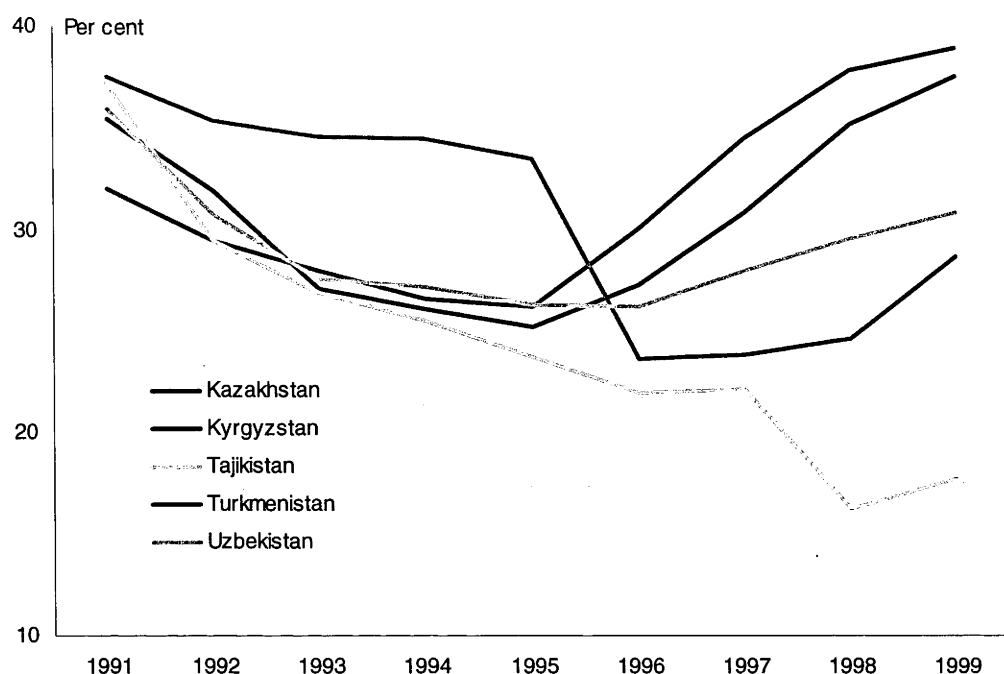
Notes: The relevant population is 7–15 year-olds. Kazakhstan, Kyrgyzstan and Uzbekistan enrolment rates for 2000 are affected by a change in the education system.

Source: TransMONEE database.

through 1991–96 in all the republics. After 1996, Kazakhstan and Kyrgyzstan diverged from Uzbekistan in achieving higher levels of enrolments in general secondary education than prior to the transition, but as we shall see this may be related more to the continued value of vocational secondary education in Uzbekistan compared to the other republics. Turkmenistan seemed to avoid the decline seen elsewhere until 1996, and then suffered the same profile seen elsewhere of collapse followed by recovery (albeit at a slower pace). Tajikistan has experienced the most pronounced decline in Central Asia. This is most likely driven by a combination of civil conflict and very extensive poverty. Poverty, as noted above, has a two-fold impact on enrolment rates: first, families often simply cannot afford to pay for their children's education and education-related expenses. Second, the opportunity cost of attending school can become too high—students may be better off, in the short term at least, engaging in productive activities, trading or other less wholesome enterprises (UNDP 1999).

In the majority of cases the pattern seems to be a slump in enrolments during the most severe years of the transition. Without conducting micro-level studies and/or extensive interviews, it is difficult to make confident statements about the cause of this decline, but the most likely explanation is the influence of economic hardship, which makes education either absolutely unaffordable to some families or undesirable given the trade-off between current sacrifice and (uncertain) future pay-off. The recovery is even less simple to explain. Kazakhstan and Kyrgyzstan are the most strongly market-oriented economies in the region, so it is tempting to hypothesise that the perceived returns to upper secondary

Figure 7.2 General secondary enrolment as a proportion of population aged 15–18 years, 1991–99 (per cent)

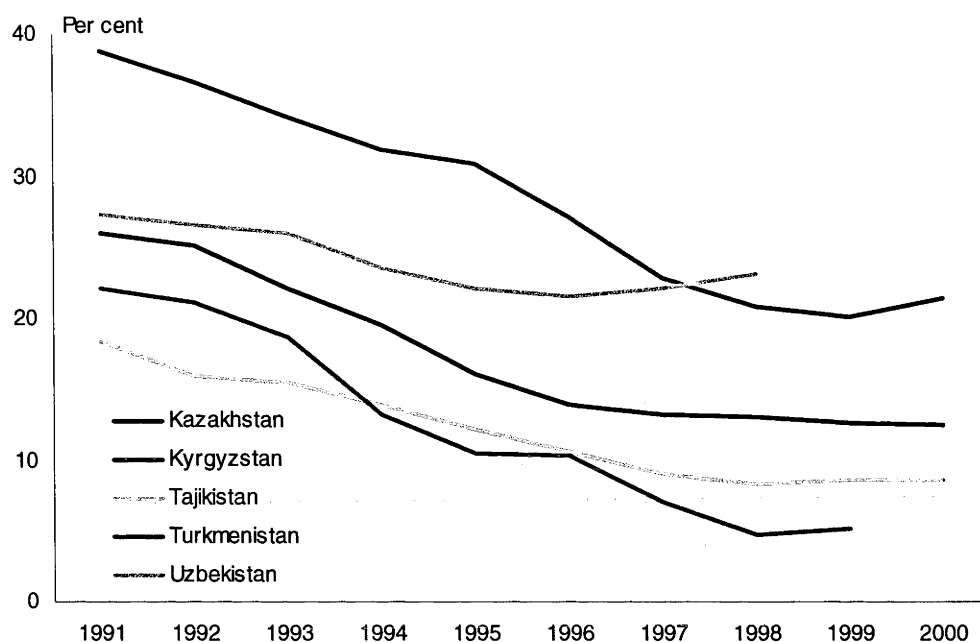


Source: TransMONEE database.

education under the new economic conditions in these countries may be driving the recovery in enrolment rates there (Klugman 1999).

Vocational/technical secondary school enrolments. Enrolment rates in vocational and technical secondary schools have dropped considerably in all the republics except Uzbekistan. Kazakhstan, Kyrgyzstan and Tajikistan all experienced roughly similar paths of decline. This is somewhat puzzling because the economic structures, and the changes in economic structure currently being experienced, of each of these countries are quite different. Tajikistan and Turkmenistan have reached alarming levels in this area of education—only 5.2 per cent of children aged 15–18 in Turkmenistan and 8.4 per cent of children of that age in Tajikistan are enrolled in vocational/technical secondary education. Enrolments in this form of education have been strongest in Uzbekistan, which begs the question: what is particular about the Uzbek economy that has caused vocational/technical education to remain relatively attractive? The answer seems to be differences in the development of the industrial sector in the various Central Asian republics. As we saw in Chapter 6, Kazakhstan's industrial structure has changed considerably since the collapse of the Soviet Union, reflecting the shift away from manufacturing towards hydrocarbons production. A similar pattern occurred in Kyrgyzstan, and the industrial sector of Tajikistan simply collapsed, diminishing opportunities there for those with a vocational secondary education. Uzbekistan, however, has managed to avoid such a precipitous shift in its industrial sector. As a consequence, opportunities still exist there for those with a vocational secondary education.¹¹

Figure 7.3 Vocational/technical secondary enrolments as a proportion of population aged 15–18, 1991–2000 (per cent)



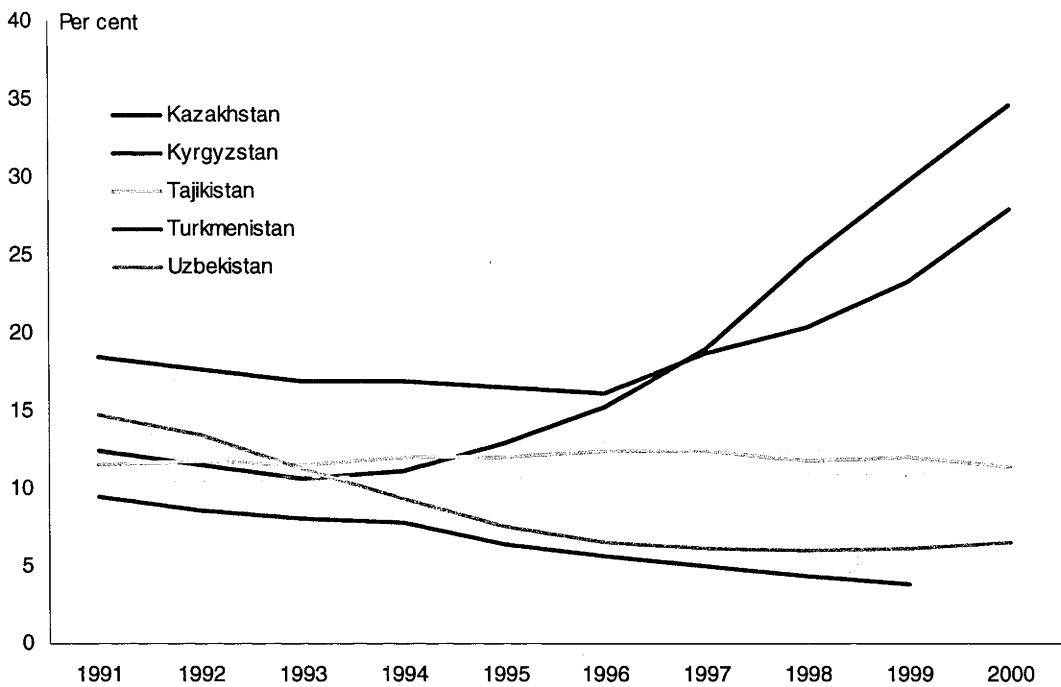
Source: TransMONEE database.

Some of the decline seen in vocational/technical secondary enrolments is probably due to economic hardship, particularly in Tajikistan where it has not been offset by a recovery in general secondary enrolments. But it seems likely that students in Kazakhstan and Kyrgyzstan, and to a lesser extent Turkmenistan, are choosing a generalist/higher education because of the perceived returns to this investment compared to the vocational/technical stream. The pattern makes sense because the transition period has been one of societal and economic change, particularly in Kazakhstan and Kyrgyzstan, and students have reacted to this by choosing more generalist streams of education, education that does constrain them to a particular career path and which can potentially provide a path towards tertiary studies.

Higher education. This trend towards higher levels of education is present also in the higher education enrolments for Kazakhstan and Kyrgyzstan (Figure 7.4). Both countries, after initial declines in the early years of the transition, have had very strong recoveries in higher education enrolments since 1995. The levels have not changed much in Tajikistan, and have declined considerably in Turkmenistan and Uzbekistan.

As Kazakhstan and Kyrgyzstan have undergone the most extensive economic reform, it is tempting to theorise that the new market-oriented conditions have caused young people in these countries to reassess the returns to different forms and levels of education. This is bolstered by Vandycke's (2001:17) claim that university graduates' wage premium over those with lower-level educational attainments was 18 per cent in Kazakhstan in 1996. That is, the new market-oriented economic conditions were perceived to favour higher education graduates over lower educational levels. The decrease in Turkmenistan appears to be a direct product of government policy to limit opportunities for higher education and

Figure 7.4 Higher education enrolments as a proportion of population aged 19–24 years, 1991–2000 (per cent)



Source: TransMONEE database

dissuade people from seeking it. Uzbekistan’s fall is harder to explain, but probably reflects the continued strength of vocational/technical education, combined with less pronounced returns to higher-level graduates in that country.

7.2.5 Education in transition

State education funding has decreased everywhere in the region, but this has probably been offset to some degree by increased private funding. Enrolments have varied in each republic depending on the supply and demand for education in those countries. The supply of educational institutions, especially higher education institutions, appears to have increased throughout the region despite decreased funding, but quality of educational facilities and the education they provide is thought to have fallen in many cases, and with particular severity in Tajikistan. The demand for education has been fairly stable at compulsory levels for obvious reasons, but has grown strongly in the second half of the 1990s in Kazakhstan and Kyrgyzstan at post-compulsory levels, reflecting the perceived returns to higher levels of education in these economies. This seems to have had less of an impact in the slower reformers because of the slower change to economic structures, and hence incentives, in those countries.

Beyond this, however, the role of reform approach is not obvious. Of the slower reformers, Uzbekistan seems to have been able to slow the decline in education spending but Turkmenistan has not. The value of Uzbekistan’s ostensible success, however, is not clear because it has been no more successful than the more rapid reformers in preventing decreased enrolments in basic and general education in the transition period, and has

performed far worse than them in higher education enrolments. Kazakhstan and Kyrgyzstan, on the other hand, seem to have lifted the number of enrolments at most levels, except in the vocational secondary stream, despite falling funding levels and the increasing cost of education to the individual. Enrolments in Tajikistan suffered considerably during the transition, and the statistics here probably understate the problem. Reform approach may have been an issue, but war, impoverishment, and the loss of institutional capacity seem to be the direct drivers of change.

7.3 POVERTY

The deepening of poverty has been one of the most disturbing aspects of the economic transition in all post-Soviet countries. Poverty has of course always existed in Central Asia, and at levels higher than usual in the Soviet Union. Branko Milanovic (1998:69), for example, calculated income poverty headcounts for 1987–88—that is, the late Soviet period—and found headcounts of 5 per cent for Kazakhstan, 12 for Kyrgyzstan, 12 for Turkmenistan, and 24 for Uzbekistan.¹² There is ample reason, however, to believe that the number of people living in poverty has increased in the post-Soviet period.

Income poverty is reflected in the headcount measures of poverty (Table 7.10). While care should be taken in making comparisons between these figures and those provided by Milanovic, they indicate that poverty is now quite extensive in Central Asia. The proportion of the population living on less than \$1 PPP per day in Central Asia is very high, and this population is concentrated in the slower reformers. Less than 2 per cent of the population in Kyrgyzstan and Kazakhstan are living below US\$1 PPP per day, but around 10 per cent of Tajiks, 12 per cent of Turkmen, and 22 per cent of Uzbeks live on less than that level. Using the US\$2 PPP per day headcount, we find that 15 per cent of Kazaks and 27 per cent of Kyrgyz were living below this level. In Turkmenistan, close to half of all people, and in Tajikistan more than half, were living under it; and in Uzbekistan a staggering three-quarters of the population was living on less than US\$2 PPP per day.

This data is contested by other sources, which paint a still gloomier picture. Goskomstat Rossii data suggest that, in 2001, 18.9 per cent of all Kyrgyz and 20.9 per cent of Turkmen were living on less than US\$1 PPP per day. Alternatively, World Bank

Table 7.10 Population living below poverty lines, 1990–2001 (per cent)

	Under \$1/day	Under \$2/day	Under \$4/day (1996–99)
Kazakstan (1996)	<2	15.3	62
Kyrgyzstan (2001)	<2	27.2	88
Tajikistan (1998)	10.3	50.8	..
Turkmenistan (1998)	12.1	44.0	..
Uzbekistan (2000)	21.8	77.5	..

Note: * \$1 a day—at 1985 international prices (equivalent to \$1.08 at 1993 international prices), adjusted for purchasing power parity... * \$2 a day—at 1985 international prices (equivalent to \$2.15 at 1993 international prices), adjusted for purchasing power parity. * \$4 a day—at 1990 international prices, adjusted for purchasing power parity’.

Sources: UNDP, 2003. *Human Development Report 2003*, United Nations Development Programme, New York. World Bank, 2004. *World Development Indicators 2004*, World Bank, Washington, DC.

(2000b) claims that, in 1998, 49.1 per cent of all Kyrgyz were living below US\$2.15 (1993—equivalent to US\$2 figure in the Table 7.10) per day, and 84.1 per cent below US\$4.30 per day (equivalent to the US\$4/day figure in Table 7.10). The relevant statistics were 7.0 and 34.4 per cent for Turkmenistan in 1998, 5.7 and 30.9 per cent for Kazakhstan in 1996, and 68.3 and 95.8 per cent in Tajikistan in 1999.

The first, and most obvious source of income impoverishment is falling real wages; unemployment is probably the second. During the transition, high inflation (see Chapter 6) eroded real wages, particularly in the public sectors. Real wages fell by 76 per cent in Kazakhstan and 94 per cent in Tajikistan between 1991 and 1995. They fell by 33 per cent in Kyrgyzstan between 1992 and 1995, a year further into the high inflation period. No equivalent data are available for Turkmenistan and Uzbekistan, but it is unlikely they could have avoided similar declines given the high and ongoing inflation there.

The impact of unemployment is harder to assess because the data are probably not accurate. Thus, in the region, Kazakhstan has the highest levels of official unemployment at 10.4 per cent in 2001, followed by Kyrgyzstan with 7.9 per cent, Tajikistan and Turkmenistan with about 2.5–2.6 per cent, and Uzbekistan at 0.4 per cent (Asian Development Bank 2003). These data probably conceal considerable underemployment, where workers are officially employed but actually perform no work, and certainly conceal situations where workers are employed but never get paid. On other hand, this is likely to be offset by considerable unrecorded employment in all the republics.

The high levels of income poverty in Uzbekistan and Turkmenistan are especially interesting. In the first place, given the extremely low levels of unemployment cited by these countries, the levels of income poverty seem rather high. Furthermore, given that these countries have chosen slow economic strategies supposedly to limit the social and economic dislocation of transition, we may ask at this point whether it has been effective. How useful has this approach been if 40 per cent of the population in Turkmenistan and 77 per cent in Uzbekistan now live on less than US\$2 PPP? Because we have no comparisons over time, it is difficult to judge how much of this has developed during the post-Soviet period, but these countries' policies surely must be called into question by the huge disparity between their performance and that of say Kyrgyzstan.

Of course, income measures of poverty can be unreliable because of the propensity of people to under-report;¹³ they also do not take into account home and subsistence production. I have included a measure of undernourishment (from UNDP 2003), and indicators of childhood wasting and stunting, to try to overcome this difficulty. In all cases, except for Tajikistan, this measure seems to suggest that people *are* either under-reporting incomes or finding ways of accessing foodstuffs in spite of their low incomes.¹⁴ The UNICEF indicators suggest little wasting (low weight for height) in any of the Central Asian republics, which indicates that outright famine is not yet a problem. The figures for stunting (low height for age), however, are somewhat more disturbing, with all countries surveyed bar Kazakhstan reporting considerable levels of stunting in children under five, which may indicate a longer-term undernourishment among some children (Table 7.11).¹⁵ The figures, however, do bear out the general patterns found in the income measures of above: the wasting measure corresponds exactly, with Uzbekistan and Turkmenistan suffering the most severe incidence and Kazakhstan and Kyrgyzstan the

least severe. The stunting measures correspond less closely but also place Uzbekistan as the region's worst performer and Kazakhstan its best.

Calorie intake seems to have followed different profiles in the Central Asian republics (Table 7.12). If we are to believe the Turkmen calorie statistics, an initial contraction in the early years of transition was followed by recovery to previous levels. Similarly, an initial fall in Kyrgyzstan was followed by a recovery to levels higher than those at the beginning of the transition period. Kazakhstan experienced an increase, but then a decline to levels below the initial figure. By way of comparison, the 2001 figures put Tajikistan considerably below the level achieved by Bangladesh, Uzbekistan equivalent to the level achieved by that country, and all the others above that. Still, they remain quite low in comparative terms (Table 7.12).

7.3.1 Characteristics of poverty

Causes. As has been illustrated in earlier chapters, the transition period was characterised by a massive fall in national incomes, extremely high rates of inflation, industrial collapse prompted by shifts in supply and demand, removal of state supports and transfers (to economic sectors and to individuals), late payments for workers, and worsening social

Table 7.11 Moderate and severe wasting and stunting in children under five, 1995–2002^a (per cent)

	Wasting	Stunting
Kazakstan	2	10
Kyrgyzstan	3	25
Tajikistan	..	..
Turkmenistan	6	22
Uzbekistan	12	31

Notes: ^a Most recent year available (not specified in source). Moderate and severe wasting refers to the proportion of the population that is 'below minus two standard deviations from the median weight for height of the reference population'. Moderate and severe stunting refers to the proportion of the population that is 'below minus two standard deviations from median height for age of reference population' (UNICEF 2003).

Source: UNICEF, 2003. 'Tables', in UNICEF, *State of the World's Children 2003*, UNICEF, New York.

Table 7.12 Central Asia: daily calorific intake per capita, 1990–2001

	1992	1995	1998	2001
Kazakstan	3030	3110	2545	2477
Kyrgyzstan	2506	2073	2754	2882
Tajikistan	2337	2289	1840	1662
Turkmenistan	2755	2438	2766	2738
Uzbekistan	2662	2598	2420	2197
Bangladesh				2187
Indonesia				2904
Morocco				3046

Source: FAOSTAT data, 2004

conditions (see World Bank 2000b). The direct effects of economic collapse, the consequent unemployment, late payments to workers, and the removal of state supports, on income levels are fairly obvious—incomes, and opportunity to earn them, fell. Increasing inequality, as Milanovic (1998) points out, also contributes to the increase in poverty as it reflects a distribution of relative shares of national wealth away from the poor towards the wealthy.¹⁶ In this way, the rampant inflation seen in the transition economies worsened poverty rates by reducing the real value of incomes and savings and by redistributing wealth towards holders of assets and foreign currencies.

Risk groups. Some groups have experienced a higher risk of being poor than others. This is essentially because some have been able to deal with economic deterioration and change more effectively than others, whereas many, for a variety of reasons, have lacked the means to deal with these developments. In this regard, economic change has had an especially hard impact on children, families with many dependents and few workers, the unemployed, people in rural areas, workers with skills that are no longer needed in the post-Soviet economy, people with lower levels of education, and the sick (World Bank 2000b, Milanovic 1998).

It is obvious why the unemployed are subject to poverty: they have lost their incomes. Children are exposed to poverty when the number of dependents in a household is large compared to that of income earners.¹⁷ Again, the reason is obvious—the more people there are dependent on a given income stream, the more widely spread that income stream will be. People in rural areas typically have low income levels because of the nature of their work. On the other hand, they have greater opportunities for subsistence production not captured by income measures of poverty. People with lower levels of education typically find it harder to adapt to changes in economic structure; their occupational mobility is limited by lack of skills or education. In the post-Soviet case, this may have been exacerbated by the strong role of vocational/technical education, a factor that has been especially troublesome particularly in the Central Asian republics. When the Soviet economies collapsed, the industrial sectors of the region mostly withered, and workers educated specifically for employment in those sectors were left with no industry needing their skills. The sick or disabled are disadvantaged for the obvious reason that illness tends to be costly and reduces work opportunities.

Persistence. Unfortunately, all economic shocks generate winners and losers. High levels of poverty, even if transient, are clearly a concern, but are not surprising given the economic dislocation experienced by all the Central Asian republics. More disturbing is the way poverty could evolve over time. Serious social and economic disturbance could result if those groups currently experiencing poverty find themselves unable to extract themselves from it. If private wealth comes excessively to determine an individual's educational and health opportunities, the possibility increases of poverty replicating itself across generations in particular families or groups. Such cycles of poverty can be minimised by government, NGO and private sector action, but such action requires money and good governance (World Bank 2000b), neither of which are particularly prevalent in Central Asia at the moment.

7.4 INEQUALITY

Inequality was not an overt feature of the Soviet economy. Government policy was aimed at minimising societal inequities, especially as expressed in income differentials. As a result, when transition began in the Soviet Union, the income distribution was flat/compressed in comparison with most market economies. Earnings inequality in Central Asia was, in this regard, not vastly different from inequality elsewhere in the Soviet Union (Atkinson and Micklewright 1992). Gini indices of earnings distribution in 1989 for the Central Asian republics ranged between 0.255 in Turkmenistan and 0.276 in both Kazakstan and Tajikistan. By comparison, the same indices were around 0.400 for the United States and Turkey, and 0.360 for the United Kingdom in the 1990s.

Inequality can alternatively be measured by comparing the incomes of the highest 10 per cent of earners with those of the lowest 10 per cent. Atkinson and Micklewright (1992) calculated this ratio for earnings in the Central Asian republics in 1989 and found that the richest 10 per cent of the population earned only 3–3.5 times as much as the poorest 10 per cent (Table 7.13). Inequality using this measure was found to be lowest in Uzbekistan and highest, as before, in Kazakstan.

This contrasts considerably with the post-Soviet situation. Gini indices increased in all the Central Asian republics, indicating that inequality has increased throughout the income profile. But the changes across republics are interesting because the rise in inequality does not seem to be related to the extent of market-oriented reform. We would expect that the gradual reformers would use these policies to limit social dislocation and upheaval, but this does not seem to have worked. Turkmenistan was, according to the Gini index measure, the least unequal republic in the late-Soviet period, but by the end of the 1990s had become the most unequal, extensive subsidies in the social sector notwithstanding. Uzbekistan is now the least unequal republic; the distribution of income there does not appear to have changed much from the Soviet period. Startling also is the increase in inequality in Tajikistan (Table 7.14). These findings are loosely reflected if we compare the incomes of the richest decile to those of the poorest. Again we find that inequality has exploded in Turkmenistan, with the top decile now receiving 12 times the incomes of the bottom decile compared to approximately three times in the late-Soviet period. Increases are seen all other republics, but Uzbekistan’s ratio seems higher than the

Table 7.13 Inequality indicators, earnings distribution, all workers, 1989

	Richest 10% to poorest 10%	Gini index
Kazakstan	3.50	0.276
Kyrgyzstan	3.31	0.260
Tajikistan	3.44	0.276
Turkmenistan	3.29	0.255
Uzbekistan	3.18	0.257

Source: Atkinson, A.B. and Micklewright, J., 1992. *Economic Transformation in Eastern Europe and the Distribution of Income*, Cambridge University Press, Cambridge.

Table 7.14 Inequality indicators, income distribution, 1998–2001

	Richest 10% to poorest 10%	Gini index
Kazakstan (2001)	7.1	0.312
Kyrgyzstan (2001)	6.0	0.290
Tajikistan (1998)	8.0	0.347
Turkmenistan (1998)	12.3	0.408
Uzbekistan (2000)	6.1	0.268
Comparators		
Turkey (2000)	7.7	0.400
United Kingdom	13.4	0.360
United States	16.6	0.408

Source: UNDP, 2003. *Human Development Report 2003*, United Nations Development Programme, New York.

Gini index would imply—it has increased from approximately 3 to 6 (Table 7.14). Again, however, these levels are not extraordinary by international standards in that none of the republics has yet approached levels of inequality seen in, for example, the United States or the United Kingdom.

The control of inequality in the Central Asian republics reflects country-specific factors. Inflation has everywhere the effect of redistributing wealth away from holders of cash and savings towards those people who can control assets and access foreign currency. In the FSU, this problem was exacerbated by a tendency in many sectors to delay payments. Delayed payment of wages in a period of high inflation meant that the real value of workers' earnings was substantially diminished by the time they received them. People who are unable to revise their nominal incomes to match price increases will be disadvantaged relative to those who can. The inflationary period thus privileged those who could control and dispose of Soviet-era assets (ie. high-level party functionaries, Soviet enterprise managers, etc.), those who could access foreign currency, those who could maintain their real income levels through other means (for example, through occupational flexibility).

The profile of inequality is still not static; much will depend on how groups that have been successful in the inflationary environment operate in an environment of relatively stable prices. But increasing barriers to education—in the form of fees, other expenses, and nepotistic and corrupt practices—could entrench the inequalities generated by inflation over the longer term.

7.5 DISCUSSION AND CONCLUSION

Factors such as developments in education, health, poverty and income distribution are important because they reflect the economy's capacity to provide a decent minimum standard of living for individuals—arguably more important than the macroeconomic figures usually deployed—and constitute, to the extent that all these factors are related to the productive capacity of the people in the economy now and in the future, the basis and framework for economic prosperity.

In this regard, the Central Asian economies have not performed well. In all of them, the transition period has seen increased levels of poverty and inequality. Spending on health and education as a proportion of GDP fell in all the republics, except Turkmenistan, where health spending apparently increased as a proportion of GDP. Given that GDP fell considerably during this time, the data suggest massive decreases in absolute levels of spending on health and education.

7.5.1 Reform and socioeconomic developments

None of the various approaches to reform adopted in Central Asia can find vindication in socio-economic conditions as they currently stand. The gradual approach to transition adopted in Uzbekistan and Turkmenistan, predicated on limiting the social dislocation arising from the transition, does not seem to have yielded much benefit in terms of limiting the growth of poverty, although Uzbekistan seems to have experienced a smaller increase in inequality than most of the other republics. At the same time, the more market-oriented strategies adopted in Kyrgyzstan and Kazakhstan have not yielded many obvious benefits—poverty and inequality have increased in both albeit to levels lower than seen in the slower reformers.

Similarly, the reform approach does not seem to have had an impact other than apparently slowing the rate of decline in education funding in Uzbekistan and Turkmenistan. Even where the rate of decline has been slowed, however, the results have not been particularly positive. Increased upper educational enrolments may indicate greater flexibility in the school age population in Kazakhstan and Kyrgyzstan, but the benefits of this are for obvious reasons not yet tangible. The data for Tajikistan do not present great grounds for optimism.

7.5.2 Socioeconomic developments and political reform

The evidence regarding socioeconomic developments and democratisation is mixed. In theory, it is sometimes argued that authoritarian regimes have an incentive to provide certain subsidies and efficient and effective social services to placate a populace that might otherwise demand democratic regime change. In practice, this does not seem so certain. In a more open polity, political opposition, lobby groups and critical media can all provide an effective feedback mechanism to alert governments to inadequacies or injustices and give expression to popular discontent. And democratic governments have an incentive to deal with these problems before they generate widespread political unrest. The problem in authoritarian regimes is that there is no such effective mechanism—opposition and lobby groups tend to be repressed and ignored, bureaucratic and political hierarchies under the sway of the ruling power, and critical media suppressed (see Sen 1999a, 1999b; World Bank 2000b). Who in a system based on repression and fear is going to tell the government there are problems? On the other hand, authoritarian regimes have no incentive to deliver anything but the bare minimum required to forestall political unrest.

Looking at Central Asia, it is difficult to see where pressure for improved services and more equitable division of wealth is going to come from. Parliaments, as we saw in Chapter 5, do not provide an effective counter to the regimes. Instead, they are usually meek and subservient, bending to the will of the ruling élite. Lobby groups are typically

repressed where they contradict the government line, and the critical media are harassed, intimidated and ultimately silenced by these regimes. Therefore, we are left to rely on benevolence of the politicians themselves to organise effective social services, to ensure that poverty is minimised, and ensure that wealth is distributed fairly. This does not look promising.

7.5.2 Are people better off?

The socio-economic situation in Central Asia seems to have worsened in the transition period. Returning to the second theme of the thesis we may ask: are the people of Central Asia better off after twelve years of transition? The answer appears to be no. Irrespective of the reform strategy adopted, spending on health and education fell, and poverty and inequality increased. Thus, the average person in the region has a higher likelihood of being poor than under the Soviet system. At the same time, that person faces health and educational services that are both more expensive and of worse quality than previously.

I would like to close with two observations here. First, given the slower reformers' aim of limiting the economic and social damage generated by transition reforms, their performance has been pretty poor, especially in terms of limiting inequality and poverty. We can justly ask whether the policies are really working; and, if they are not, why do they continue? Second, these indicators more generally are approximate measures of human capacity and well-being. Failure to provide good education and failure to safeguard health means, at the individual level, discomfort, harder and shorter lives, and unrealised potentials and ambitions. At the aggregate level, it means that productive lives are being wasted and cut short. Poverty, as shown above, can be crucial in determining whether people can access these services; and inequality, in turn, can perpetuate this poverty across generations. This is not merely a moral problem, but an economically pragmatic one: the Central Asian republics' future depends on how well they deal with these difficulties.

NOTES

- ¹ We should note here that Turkmen data are probably suspect, particularly with regard to so sensitive a subject. The deterioration is in line with what we would expect; the subsequent recovery is less likely.
- ² World Bank (2003b) argues that, in Uzbekistan at least, infant mortality is substantially higher than the statistics suggest because the methodology for calculating infant mortality in the former Soviet Union understates the true figure. While this has a bearing on our understanding of the full scale of the problem, it is less problematic here because we are concerned mostly with comparisons across time and the methodology has not changed over in the post-Soviet period.
- ³ Forty per cent of Kazakhstan's population was of Slavic origin in 1994, compared to 20 per cent in Kyrgyzstan, and less than 10 per cent in all the other republics.
- ⁴ At the time, the outbreak was blamed on a decline in inoculation and a lack of appropriate knowledge of the disease among health care workers. *Reuters*, 13 November 1995; *Agence-France Presse*, 22 December 1995.
- ⁵ As Falkingham notes, however, given the design of the survey from which these results are drawn, it is not possible to see to what extent this is driven by official or unofficial charges.
- ⁶ There were substantial differences among the different cultural groups in the 1926 (for example, Karakalpak, Kazak, Uzbek, etc). These figures should be treated more as indicative of the likely levels rather than being considered as an absolute figure.
- ⁷ See, for example, 'Turkmen president fires finance, education ministers over corruption allegations', *Associated Press Newswires*, 23 April 2004. Reports surfaced early in 2004 that Turkmen teachers had not been paid for months (*AKIPress*, 19 April 2004). For details of teachers' wage arrears in Uzbekistan see, for example, 'New rights group seeks to protect teachers' rights in Uzbekistan', *BBC Monitoring Former Soviet Union*, 10 February 2004; 'Teachers strike over wage arrears in eastern Uzbekistan', *BBC Monitoring Former Soviet Union*, 9 December 2003; for Kyrgyzstan, see 'Kyrgyz government to cover debt of teachers' wage in October', *Kabar (Kyrgyzstan)*, 9 September 2003; for Tajikistan, see 'Tajikistan faces shortage of teachers due to low wages', *BBC Monitoring Central Asia*, 16

August 2003; for Kazakhstan, see 'Kazakh president promises teachers' congress more funding for education', *BBC Monitoring Central Asia*, 5 December 1998; 'Kazakh workers on hunger strike over unpaid wages', *Reuters News*, 20 January 1998. On corruption, see 'Kyrgyz Ombudsman to focus on students' rights in 2004', *Kabar*, 9 January 2004; 'Turkmen president fires finance, education ministers over corruption allegations', *Associated Press Newswires*, 23 April 2004; Nazpary (2002); ICG (2003b).

⁸ For a discussion of this in Kyrgyzstan, see *IRINNews* (15 July 2004).

⁹ The problem in Tajikistan, and also to an extent Turkmenistan and Uzbekistan, is compounded by the mobilisation of many students to harvest cotton, drawing away from their studies for considerable periods of time (see, for example, Panfilova 2003b).

¹⁰ General Secondary Enrolment refers to 'two- to four-year programmes of academic study, often leading to higher education, with entry on a selective basis. In CIS countries, general secondary typically comprises the two or three upper classes of the comprehensive school' (TransMONEE database, n.d.)

¹¹ For example, machine building and light industry—the industrial categories that use skilled labour most intensively—accounted for 11 and 20 per cent respectively of industrial production in Uzbekistan in 2001. The equivalent figures for the other republics were 1 and 10 per cent in Tajikistan (2001), 1 and 25 per cent Turkmenistan (1996), 5 and 2 per cent for Kazakhstan (1997), and 5 and 6 per cent for Kyrgyzstan (2001). See Goskomstat Rossii (2002).

¹² Milanovic appears to be using US\$4 PPP as the poverty line in this case. See also Marnie and Micklewright (1994), who analyse pre-reform poverty in Uzbekistan.

¹³ Note, however, that under-reporting is not a new phenomenon in the Central Asian republics. It was considerable in the Soviet period, particularly with regard to production on family or private farm plots, which was usually sold privately and hence did not appear in the Soviet statistics.

¹⁴ In the case of Tajikistan, this seems to be borne out by changes in the number and type of meals eaten by poor families. For example, World Bank (2000:32) reports of a survey in Tajikistan that '[o]ver half of all households had not eaten any meat in the 7 days prior to the survey, 61 percent had not eaten eggs...'

¹⁵ See Micklewright and Ismail (2001) for a more specific study of wasting and stunting in Uzbekistan.

¹⁶ Inequality is briefly covered later in section 7.4.

¹⁷ For analysis of this in Kazakhstan, Kyrgyzstan and Tajikistan respectively, see World Bank (1998, 1999a, 2000a).

APPENDIX 7.1: MORTALITY TRENDS IN CENTRAL ASIA

Figure A7.1 Kazakhstan: mortality by age group
(deaths per 100,000 of relevant population)

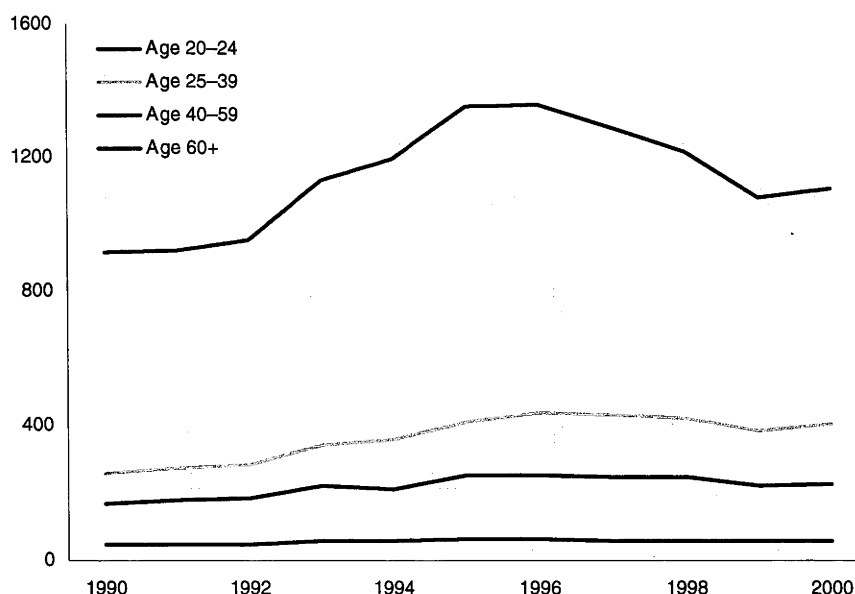


Figure A7.2 Kyrgyzstan: mortality by age group
(deaths per 100,000 of relevant population)

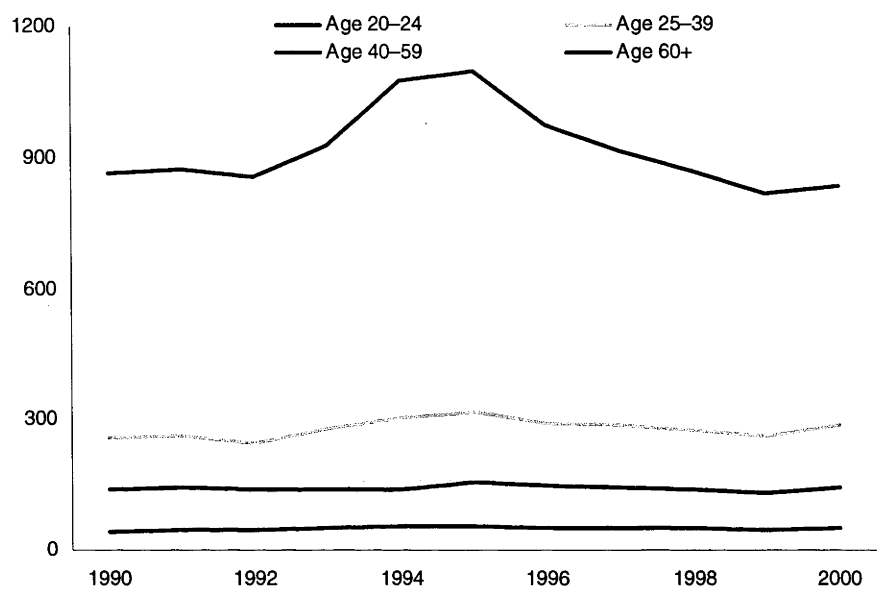


Figure A7.3 Tajikistan: mortality by age group
(deaths per 100,000 of relevant population)

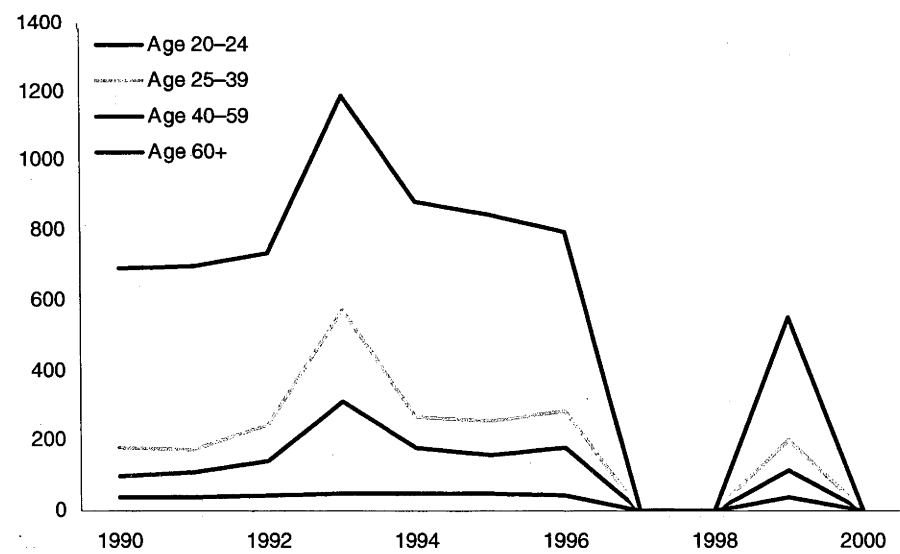


Figure A7.4 Turkmenistan: mortality by age group
(deaths per 100,000 of relevant population)

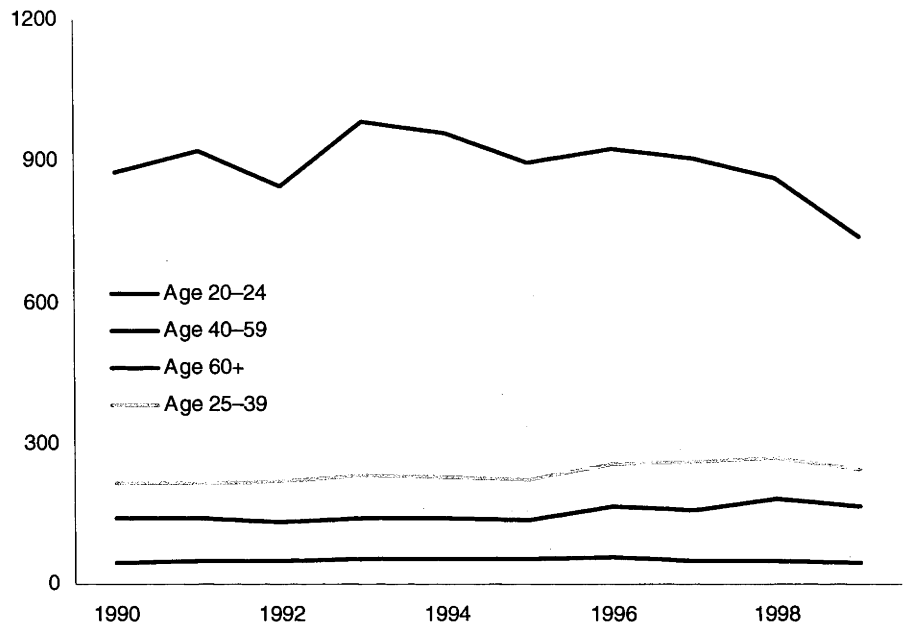
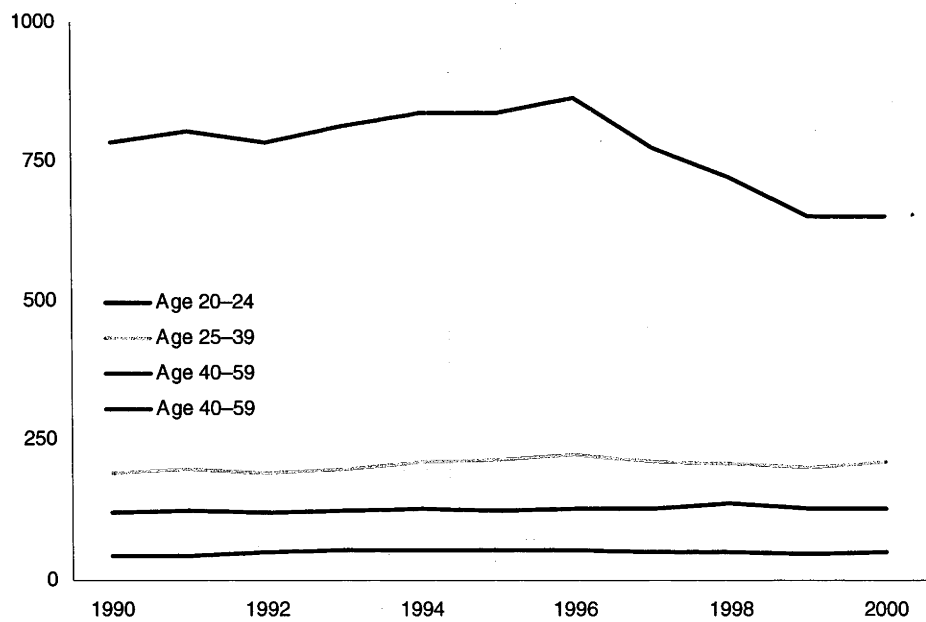


Figure A7.5 Uzbekistan: mortality by age group
(deaths per 100,000 of relevant population)



Source: TRANSMonee database.

8 CONCLUSION

The most important critical insight to be gained from a comparative analysis of the Central Asian republics' post-Soviet economic performance is that the speed and approach of reform has had little role in determining results in either the macroeconomic or socioeconomic sectors. Reform's most ardent advocates claimed that rapid reform was critical in curtailing the economic instability that beset the transition region in the post-Soviet period. They argued that the post-Soviet economies were severely distorted by Soviet economic structures and policies, that these distortions were generating economic instability, and as a result, the quickest way to fix the instability was to remove the distortions by implementing reform. Slow reform, they asserted, would only maintain those distortions or create new ones.

Throughout the transition period, they have sought evidence to support their assertions, relying on large cross-regional econometric studies to find correlations between rapid reform and economic stability. The question posed here is not whether reform is important. Clearly it is important—if these economies are to become market economies, and all the republics' leaders have claimed this as a goal, then reform is unavoidable. Instead, the question is whether the choice of reform strategy has truly played a role in economic performance in the region. In Central Asia, as this thesis has demonstrated, it has not.

Comparing the Central Asian economies, we are forced to the conclusion that reform strategy has played little role in the economic results seen there. The Central Asian republics can be ranked according to the progress they have made towards implementing the 'ideal' reform package. Kazakhstan and Kyrgyzstan have been the leading reformers, rapidly liberalising prices, trade and exchange rates among other things. They have also implemented fast and far-reaching privatisation programs to divest the state of most economic assets. Uzbekistan and Turkmenistan, on the other hand, have been far slower to move along this path, retaining extensive controls on prices, restricting access to foreign exchange, and monopolising trade. They have, moreover, been far more cautious in privatising state enterprises. Tajikistan represents an intermediate case, where civil war prevented the implementation of an otherwise quite ambitious reform program. Institutions remain weak throughout the region, but again Kazakhstan and Kyrgyzstan represent the most advanced reformers and Turkmenistan and Uzbekistan the least advanced.

8.1 REFORM AND ECONOMIC PERFORMANCE

8.1.1 Reform and macroeconomic performance

In terms of output, Uzbekistan and Turkmenistan experienced the shallowest declines, followed by Kazakhstan and Kyrgyzstan, and then Tajikistan, which was one of the worst performers in the transition region. Thus, the notion of a link between reform and robust GDP performance is immediately doubtful. We are compelled to look more deeply at what is driving the decline and recovery of GDP in the region's economies.

Tajikistan suffered a civil war, an unfavourable initial structure, and a multitude of other problems associated with the withdrawal of subsidies from the Soviet Union and the collapse of trade routes. Kazakhstan, Kyrgyzstan and Turkmenistan suffered roughly equal output declines in the transition period, but for different reasons. In Kazakhstan and Kyrgyzstan, the Soviet industrial structure collapsed and was slowly replaced by a different structure. This replacement took time: until the opening of the Kumtor gold mine in 1997 in Kyrgyzstan, and until the development of the hydrocarbons sector in Kazakhstan. These republics had external opportunities to replace those lost in the Soviet collapse, but had to overcome initial constraints through investment of time and money through the 1990s. Turkmenistan suffered a different problem. It had a fully developed industry, whose products could readily be sold on world markets, but was constrained by transport networks that extended through competitors' territory and by the unwillingness or inability of major trading partners to pay a reasonable price or sometimes even to pay at all.

Uzbekistan represented a case of pure opportunity. Uzbekistan's major export product in the Soviet era was cotton; and its major export in the post-Soviet period remained cotton. Unlike the other Central Asian republics, it could sell this cotton as well as gold on open markets for hard currency, avoiding the non-payments or dubious barter deals that characterised CIS trade during this period and avoiding the collapse in industrial demand that occurred throughout the former Soviet Union.

There is arguably more evidence in favour of reform progress influencing price stability. After all, Kyrgyzstan, a rapid reformer, was the first republic in the region to control hyperinflation; Turkmenistan, a slow reformer, the last. Kyrgyzstan's fine performance, however, is clouded by the fact that it was achieved through an influx of aid loans and grants from international donors, which allowed the republic to maintain very high budget deficits without having to print money to finance them. It is this difference from the other republics, not the actual process of reform, that explains its reasonable inflation performance. The trade-off for price stability in Kyrgyzstan, however, has been the accumulation of a massive stock of external debt, which almost generated a fiscal and economic crisis when repayments began to fall due over 2001–04. Thankfully, the crisis was averted by a debt rescheduling in 2002, but the fact that there was a crisis underscores the problem with the Kyrgyz strategy: it has generated short-term domestic price stability at the risk of much longer-term external instability.

In all the Central Asian republics except Kyrgyzstan, control of inflation corresponds closely with control of fiscal deficits, but controlling fiscal deficits is not necessarily a

consequence of reform. The only way to control fiscal deficits is to reduce spending and/or increase revenues. Again, reforms of the kind advocated by economists at the beginning of the transition process were neither necessary nor sufficient to achieve this. Instead, what was needed was government commitment to reduce deficits, something which both reformist and non-reformist governments could achieve given sufficient political will and good luck.

8.1.2 Reform and socioeconomic performance

Socioeconomic developments differed in each republic, but it is clear that the choice of reform strategy has not played a role in containing many aspects of socioeconomic deterioration. The Uzbek and Turkmen governments apparently chose a slow reform strategy to isolate their people from the dislocation caused by rapid reform. While spending on, and provision of, social services in these countries seems to have remained stronger than in the faster reformers, this has not delivered better results in terms of improved indicators of mortality, morbidity, school enrolments, poverty or inequality.

This is important because the presidents of Uzbekistan and Turkmenistan explain their policies—minimal democratisation and extremely gradual economic reform—by the need to avoid social upheaval. Is this defensible given that these policies do not seem to succeed in this aim? If these policies do not prevent the deepening of poverty and inequality, do not extend healthy lives, or restrain declines in provision of social services such as education or health, what is their purpose?

8.2 POLITICAL REFORM

The second key insight into the Central Asian post-Soviet experience is that democratisation is not necessarily a component of transition. None of the Central Asian republics are genuinely democratising, or even becoming freer. Freedom of expression is everywhere repressed, and freedom to participate in political life is heavily circumscribed. That said, however, Kyrgyzstan and Kazakhstan are freer than Tajikistan, which in turn is freer than Uzbekistan and Turkmenistan. The overall lack of political reform is, however, problematic. Political reform is important because it can generate mechanisms for accountability, it can invoke constituencies for further reform, and it promotes the development of functioning institutions. At the same time, economic growth and its specific sources in Central Asia may be generating forces that counter further reform.

8.2.1 The importance of political reform in transition

Further political reform could have played an important role in two areas: generating better socio-economic outcomes and promoting institutional reform. Crucial here is the role of democracy as a mechanism for delivering information to policymakers and making politicians and bureaucrats more accountable. The authoritarianism currently seen in Central Asia, in which critical opposition and media voices are repressed and politicians are never genuinely held to account in elections, effectively insulates the regimes from dissatisfaction among the populace. Information regarding matters such as the poor condition of public services or public discontent with poverty or inequality

might never be communicated to the regime head if the press and the bureaucracy are too servile and there is no opposition to press the issue. At the same time, if the regime never genuinely has to face electors' censure over poor performance, what incentive does it have to improve the situation? Obviously, democratic systems are not perfect in this regard, and democracy is probably not the only way of generating feedback between policy and performance, but true freedom of expression and true political competition are simple ways of potentially increasing accountability and feedback. Where politicians' grasp on power is dependent on building a wide constituency in their support, they are far more likely to be concerned about how well basic social services, such as schools and hospitals, are functioning, and how effective and reliable institutions like legal systems and regulatory institutions are.

In this regard, greater political reform might have generated better socio-economic outcomes in Central Asia. Of course, some deterioration was unavoidable as economic collapse drove reductions in spending in the social sphere. But more audible public demands for effective services in the social sphere might have generated better use of the resources that remained in the sector. This would appear particularly salient in Uzbekistan and Turkmenistan, which ostensibly maintained far higher spending in the social services than the other republics but do not seem to have achieved better results as a consequence.

Similarly, political and economic institutions in the region remain underdeveloped in the first place because the lack of accountability shields the regimes, and the institutions themselves, from constituencies that would demand proper institutional functioning. At the same time, however, institutional reform is probably incompatible with the interests and priorities of the current regimes. Openness and accountability contribute to reducing the scope for abuses of power and concentration of wealth in the hands of the political élite. As a consequence, judicial, bureaucratic and regulatory agencies remain poorly developed because it serves the regime's needs to have them so. Particularly important in this regard is the disciplining mechanism of regular regime change and the ability of opposition groups and the media to raise issues uncomfortable to the government.

8.2.2 The impact of economic growth on reform

Renewed growth may have an impact on the progress of reform in the Central Asian republics. The reform programs were initiated as a response to long-term economic decline in the Soviet Union, and accelerated as a response to further deterioration in the independent republics. Even though reform has been only partial in most of the republics, particularly in terms of institutional reform, growth has renewed. This, as we saw above, occurred because reform was essentially unrelated to macroeconomic stability in the Central Asian republics. Now that growth has revived and price stability has basically been achieved in the Central Asian republics, it would not be surprising to find the sense of urgency for reform petering out. This is essentially what occurred in Kyrgyzstan, where the impulse for reform vanished at approximately the same time that the economic collapse bottomed out.

This is compounded, however, by the type of economic growth we are now seeing in Central Asia, based predominantly on the extraction and export of natural resources.

Complex, diversified economies are more likely to require well-functioning and highly developed institutions than are economies based predominantly on natural resource industries. This is because more complex forms of economic activity require more extensive linkages between economic actors—firms, individuals, and so forth—as well as between economic actors and regulatory and bureaucratic agencies. Thus, in a more diverse, complex economy, there is more likely to be a powerful constituency pushing for reliable and effective economic and legal institutions to provide the infrastructure for economic interactions and enforce transactions. Because resource exploitation now forms the lead sector in all the Central Asian republics, there is simply no constituency in any of them powerful enough to make it worthwhile for politicians to initiate institutional reform. When economic growth is dominated by industries that are not bothered by flawed institutions, and the most powerful political constituencies are bound to these industries, what incentive is there for politicians to introduce reform? Again, this process seems most pronounced in Kyrgyzstan, where the notion of becoming the ‘Switzerland of Central Asia’ has disappeared as gold wealth has temporarily eased the country’s economic difficulties.

This indicates, however, that the push for ongoing regime-led economic and political reform is not likely to come from domestic constituencies: those in favour of further reform are silenced by the repressive organs of the state, and those who have the ear of the leaderships have no interest in further reform. As a consequence further reform will be initiated only insofar as it satisfies the incumbent regime and/or appeases foreign donors, both unilateral and multilateral. The problem here, of course, is that with no powerful and audible domestic constituency for reform, the reforms adopted tend to wither in practice, fulfilling a formal obligation but delivering limited actual benefit. This kind of reform, as Chapter 5 noted, has characterised much of the political scene in Central Asia since independence, but can also reach into the economic sphere.

8.3 ARE PEOPLE BETTER OFF?

The third key insight here relates to the human impact of the reform process and derives from the question: are people better off after over a decade of transition in Central Asia? Behind the aggregate macroeconomic statistics lies something more important: people. The transition period was one of hardship, stress and dislocation for ordinary people. Between 1992 and 1997, myriad industries collapsed, jobs and incomes were lost, and schools and hospitals closed. In Tajikistan, the period has seen lives interrupted and ended as ordinary people suffered and fled the violence. The macroeconomic statistics can only hint at the aspirations and talents crushed for lack of opportunity, at healthy lives cut short, and skills never used. The alarming increase in adult mortality in Kazakhstan and Kyrgyzstan mid-transition points to a terrible, unseen tragedy, something that goes beyond academic economics.

Are the people of Central Asia better off now than in the Soviet Union? The purpose of the transition reforms, after all, was to improve people’s lives by increasing overall wealth and well-being. Unfortunately, the answer in Central Asia is not entirely clear. Economically, the picture is mixed: most of the Central Asian economies are

smaller than they were before 1990—only Uzbekistan has regained its 1989 GDP level. On the other hand, there are no widespread shortages of the kind seen at the end of the Soviet period. At the same time, wealth has become more concentrated, and poverty seems to be getting worse. Worsening statistics for calorie intake, and wasting and stunting in children, imply that these economies may merely have shifted from rationing by queuing to rationing by income. Less wealth less evenly distributed is hardly an improvement.

Politically, not much has changed. Central Asia's citizens are not much better off, and in some cases are worse off than under the Soviet regime. In Kazakhstan and Kyrgyzstan, opponents of the incumbent regime can expect to have a rough time, with punitive tax inspections, bureaucratic mendacity, official and unofficial violence, and imprisonment for dubious reasons the favoured government strategies. There is little scope for activities and voices that endanger the interests of the elite. In Uzbekistan and Turkmenistan weak totalitarianism has been replaced with a brutal form of sultanism, and opponents of the regime can expect to suffer violence, imprisonment, torture and death. There is virtually no scope for critical voices in these countries.

So, on balance, compared to a decade ago, the people of Central Asia face a situation in which they are politically no freer, where their economic opportunities are no greater, where social services are more expensive and of poorer quality, where the chances of living in poverty are higher, and the inequities between the rich and the poor are greater.

Other questions prompt themselves here: will the Central Asian republics perform better in the future? Will the republics find ways of harnessing the dreams and talents of its people, allowing them to develop and using them thoughtfully? Again, the answer is not clear. Certainly, the republics do not lack obvious sources of wealth, or the desire for it to happen. But so much depends on those in power—will they squander the region's wealth? Will the region's élites resist the temptation to enrich themselves at the majority's expense? Will the spoils of the region's resources be enjoyed by the majority or by few?

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